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Alabama State Port Authority; Ports/Port Authorities

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Alabama State Port Authority; Ports/Port Authorities

Credit Profile		
Alabama St Port Auth docks facs (wrap of insured) (MBIA & BHAC)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
Alabama St Port Auth docks facs (wrap of insured) (MBIA) (National) & (AGM)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
Alabama St Port Auth rev bnds		
Long Term Rating	A-/Stable	Affirmed
Alabama St Port Auth docks facs		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

Rationale

Standard & Poor's Ratings Services affirmed its 'A-' long-term and underlying rating (SPUR) on the Alabama State Port Authority's outstanding dock facilities revenue bonds. The outlook is stable.

The rating reflects our view of the port's potential revenue diversification with the opening of the Pinto terminal, strong niche position, increasing cargo trends, and strong financial margins.

The rating also reflects our view of the port's:

- Exposure to cargo volume risk, with soft cargo demand in 2009 and 2010, which led to reduced net operating revenues but overall cargo increased in both 2011 through 2013;
- Low liquidity position, as of September 2013, unrestricted cash was $46.5 million, representing 194 days' cash however, liquidity is expected to decline by approximately $25 million due to a land acquisition; and
- High overall debt levels, with level debt service through 2022 at approximately $28 million and then debt service is slated to decrease to $22 million through 2041.

The above weaknesses are partly offset by our view of the port's:

- Increased debt service coverage back to historical levels, with cash-flow coverage increasing to 2.42x in 2013 from 2.48x in 2012, and indenture coverage at 2.91x in 2013; budgeted indenture coverage for 2014 is 2.36x;
- The availability of certain state tax revenues (historically about $12 million annually) to cover any shortfalls in operating expenses or debt service; and
- Limited competition from other U.S. Gulf Coast ports, resulting from its large size and niche position in the U.S. Gulf Coast coal trade.

We understand that the authority does not have any additional issuances planned at this time.

The bonds are secured by the Alabama State Port Authority's docks facilities revenue as well as interest income from certain funds created by the bond order.

The majority of the authority's activities are conducted at the extensive facilities constituting the Port of Mobile. The port is located in the southwestern part of the state at the junction of the mouth of the Mobile River and the head of Mobile Bay. All of Alabama's navigable inland waterway systems are connected to the port. Its facilities include:

- Substantial coal handling and storage facilities;
- General cargo facilities;
- Intermodal facilities;
- Bulk material handling and warehouse facilities;
- Terminal railway facilities;
- A rail ferry terminal;
- Amarine liquid bulk terminal;
- A container terminal; and
- Other facilities.

The port experienced a sharp downturn in traffic in fiscal 2009, followed by soft demand in 2010, however overall volumes increased in fiscals 2011 through 2013. For fiscal 2013, total tonnage was up 1.9%. Coal tonnage, which represents approximately half of the authority's operating revenue, was up 3.1% in fiscal 2013 due to higher coal exports. Higher overall cargo volumes have led to an increase in operating revenues, with fiscal year 2013 revenues up 2%.

Leading up to fiscal 2009, the port had experienced generally strong growth in revenues and debt service coverage, with cash flow debt service coverage totaling 2.10x in fiscal 2008, as calculated by Standard & Poor's. However, cash flow debt service coverage for fiscal 2009 was 1.31x and for 2010 was 1.60x. Coverage increased in 2011 to 2.06x and was 2.48x in 2012 and 2.42x in 2013. Budgeted debt service coverage in 2014 is 1.72x although the port expects to exceed its budgeted coverage levels. The authority's liquidity position increased to $46.5 million in unrestricted cash, representing 194 days cash at the fiscal year end, however it is expected to decline by approximately $25 million due recent land acquisition. In addition, the authority also has more than $7 million cash posted as collateral related to swaps.

The authority has one swap outstanding with a negative mark to market value of $10.5 million as of Sept. 30, 2013. The swap has collateral posting requirements based on the lower of a Fitch or Standard & Poor's rating -- and at the 'BBB+' rating level, the swap has a threshold amount of $10 million. The authority currently has $7.6 million collateral posted, which is above the amount required. The authority has sufficient unrestricted cash to meet potential collateral requirements on the swap, but a material increase in the negative mark to market combined with lower rating could result in additional draws on the authority's already low liquidity position.

Outlook

The stable outlook reflects our view of the authority's increased financial margins and what we consider as low liquidity levels, as well as our expectation that the port will continue to actively manage its financial position to maintain the increased financial margins. Lower liquidity levels and lower cargo volumes that lead to lower financial margins could result in a lower rating. We do not anticipate raising the rating during the two-year outlook horizon, based on our expectation that financial margins and liquidity levels will remain consistent with the current rating.

Bond Provisions

The bonds are secured by the Alabama State Port Authority's gross docks facilities revenue, along with interest income from certain funds created by the bond order. The bonds are additionally secured be a debt service reserve, funded at the lesser of 10% of the par amount, maximum annual debt service (MADS), or 125% of average annual debt service. The 2006 bond order defines "net revenues available for debt service" as: docks facilities revenue, plus "available state tax revenues," plus any other state tax and license revenue that is expected to be available on an ongoing basis, minus operating expenses." Available state tax revenues are revenue from Alabama's Coal Tax Act and its Oil and Gas Severance Tax Act. The authority only receives these funds if needed in a given year due to a shortfall in operating expenses or debt service.

Under the Coal Tax Act, the state levies a 13.5 cents per ton tax on coal severed in the state. In recent years, coal tax revenue has totaled between $2 million and $3 million. Tax revenue is directed to the state's general fund and other specified sources unless it is needed to pay any shortfalls between the authority's revenues and its expenses and debt service. The authority has not used any of this tax revenue since 1988. The tax was enacted in 1972 and must be extended periodically by the state legislature. The coal tax revenue is not pledged to bondholders.

The Oil and Gas Severance Tax Act directs that the first $9.5 million of a statewide tax on oil and gas production be deposited to a trust fund established in the state treasury. This fund can be used to pay any shortfalls between the authority's revenues and its expenses and debt service. The authority has never used any of this tax revenue. The tax has been collected since 1987; the act has no expiration date. The oil and gas severance tax revenue is not pledged to bondholders.

Under the rate covenant in the bond order, the authority must set rates and charges such that:

- Net revenues available for debt service (including available state tax revenue), plus investment income, plus any transfers from the revenue stabilization fund must equal (1) 1.25x annual senior-lien debt service and (2) 1.00x all required deposits, including subordinate debt;
- Dock facilities revenue, plus additional revenues (actual revenues received from the state), plus investment income must provide 1.0x coverage of operating expenses, debt service and any required reserve deposits; and
- Gross docks facilities revenue plus investment income must provide at least 1.50x coverage of debt service and any required reserve deposits.

The flow of funds is standard and directs to the revenue fund all docks facilities revenue, "additional revenues," and any transfers from the revenue stabilization fund. "Additional revenues" are directed to the "additional revenue fund" to be used to pay docks facilities operating expenses or debt service. Docks facilities revenue and transfers from the revenue stabilization fund are directed to the senior-lien debt service fund, the senior-lien debt service reserve fund, the subordinate debt service fund, the subordinate debt service reserve fund, operating expenses, sub-subordinate debt service, the renewal and replacement fund, and the revenue stabilization fund. Any remaining balance in the revenue fund may be withdrawn and applied for any lawful purpose of the authority.

The additional bonds test is based on historic net revenues available for debt service; however, it allows the inclusion of 60% of the projected revenues derived from the bond-financed project in its first year of operation, and it allows operating revenues to be adjusted for any approved rate increases. To issue additional bonds on parity with the dock facility revenue bonds, the following conditions must be met. In all cases, the calculation of revenues may be adjusted as described above.

- Net revenues available for debt service (including available state tax revenue) plus investment income for 12 of the previous 18 months must equal (1) 1.25x MADS on existing and proposed bonds and (2) 1.00x MADS on existing and proposed bonds and all required deposits, including senior, subordinate and sub-subordinate debt;
- Gross docks facilities revenue plus additional revenues (actual revenues received from the state) plus investment income for 12 of the previous 18 months must equal 1.00x operating expenses and debt service and reserve deposits for senior, subordinate, and sub-subordinate bonds; and
- Gross docks facilities revenue for 12 of the previous 18 months plus investment income must equal 1.50x debt service and reserve deposits for senior, subordinate, and sub-subordinate bonds.

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