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Georgia Ports Authority; Ports/Port Authorities

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US$768.875 mil rev bnds ser 2022 due 07/01/2052		
Long Term Rating	AA/Stable	New
Georgia Ports Authority rev bnds ser 2021 due 07/01/2051		
Long Term Rating	AA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA' long-term rating to the Georgia Ports Authority's (GPA) proposed $768.875 million revenue bonds, series 2022. At the same time, S&P Global Ratings affirmed its 'AA' rating on the authority's 2021 revenue bonds outstanding. The outlook is stable.

The bonds are secured by a net revenue pledge of port facilities, which include gross revenues minus cost of operations and maintenance of the Port of Savannah (Garden City Terminal and Ocean Terminal), the Port of Brunswick (Colonel's Island Terminal, Mayor's Point Terminal, East River Terminal, and Lanier Docks), the Appalachian Regional Port, and the Port of Bainbridge. We view the bond provisions as credit neutral. The rate covenant requires that net revenues provide at least 1.25x debt service coverage (DSC), per the resolution. An additional bonds test is also in effect based on a prospective test that is the same as the rate covenant of 1.25x or 1.25x maximum annual debt service coverage for the first five years and also a historical test of 1.25x based on a period of 12 consecutive months out of 18 consecutive months preceding issuance of additional bonds. The bonds don't have a debt service reserve account.

The proposed series 2022 bond proceeds will be used to finance the reconfiguration of berth 12 and berth 13 at the Ocean Terminal, fund the purchase and delivery of seven new ship-to-shore cranes, fund the redevelopment of a portion of the Ocean Terminal container yard, and pay costs associated with issuance. The proposed 2022 bonds, with a final maturity of July 1, 2052, along with the 2021 revenue bonds will be the only debt outstanding in aggregate of approximately $1.2 billion after issuance.

Credit overview

The rating reflects our opinion of the port's very strong enterprise risk and financial risk profiles. The enterprise risk profile reflects the port's size and dominance in the regional economy; as well as the strength of its service area with capacity for growth combined with a capable, experienced management team. The port is the third-largest gateway for containers in the U.S. outside of the San Pedro Bay complex and the Port Authority of New York and New Jersey. The port has a strategic location in terms of shipping connectivity, serving both Suez- and Panama-bound ships. Over the past 15 years, the authority's container volume has increased at a faster rate than that of any other major port in the country, with a 6.6% compounded annual growth rate (CAGR), reaching 5.3 million twenty-foot equivalent units (TEUs) in fiscal 2021 (fiscal year-end June 30). Unaudited fiscal 2022 continued the strong growth trend with TEUs reaching a record 5.8 million, an increase of 8.1% over the previous year. Container cargo made up approximately 90%

of operating revenues in fiscal 2021 and 91.8% in unaudited fiscal 2022. Part of the growth is due to the facilities' advantageous location for rail capabilities into the Midwest; regional interstate access; and proximity to the fast-growing Southeast economy, such as Atlanta. In addition to containers, GPA has capabilities to handle breakbulk (4.4% of total revenues in fiscal 2021), roll-on/roll-off ships (2.9%), and bulk cargo (1.2%). Tempering this assessment is the port's exposure to volatile activity levels related to fluctuations in economic conditions and international trade.

The financial risk profile reflects the authority's DSC (S&P Global Ratings-calculated) that we expect will be no lower than 3.7x (per our lower revenue stress case) through the forecast period with extremely strong debt and liability capacity. The port has a large-but-manageable capital improvement plan (CIP) of about $4.4 billion of projects through fiscal 2032 with about 31% funded through proceeds of 2021 bonds and the proposed 2022 issuance; the remaining 69% will be funded through ongoing cash flow and internal funds. We incorporated the impact of the proposed bonds through management-provided forecasts, which are informed by a third-party study, by considering pro forma metrics in our analysis and S&P Global Ratings-defined lower revenue stress cases.

The port entered the COVID-19 pandemic financially and operationally strong, given its size and importance to the regional economy as an import and export hub. Before the pandemic, the port expected a 3.5% increase in containers in fiscal 2020 compared with fiscal 2019 levels but ended up being down 1% year over year due to pandemic-related impacts. However, in summer 2020 the port began processing a surge in TEUs due to an increase in consumer spending and consumers purchasing more goods than services because of mobility restrictions and public health guidance related to the pandemic. The trend continued in fiscal 2021 and unaudited fiscal 2022, increasing approximately 20.2% and 8.1%, respectively. This significant growth has benefited the port financially but has introduced operational and logistical challenges for management, leading to some congestion. As with any port facility, the supply chain operations are complex and interconnected with many parties involved, and we do not view this congestion as a reflection of the management team at the authority.

The very strong enterprise risk profile reflects our view of the authority's:

- Extremely strong service area economic fundamentals, which include favorable GDP per capita, unemployment comparable with the national average, and a large and growing population;
- Very strong market position, given it is a dominant provider of port services facing modest competition, primarily with South Carolina State Ports Authority. The port is strategically important to the regional economy as an import and export hub for manufacturers and other businesses in Georgia and neighboring states;
- Low industry risk relative to that of other industries and sectors; and
- Very strong management and governance, with an experienced management team that we believe demonstrates both deep knowledge and insights into industry and market conditions and that has established a track record of managing and operating its port facilities and overseeing implementation of the large capital plan.

The very strong financial risk profile reflects our view of the authority's:

- Very strong DSC under S&P Global Ratings-defined lower revenue stress cases;
- Extremely strong debt and liabilities capacity, reflective of the proposed obligations resulting in debt to EBIDA near or below 4x under S&P Global Ratings-defined lower revenue stress cases; and

- Very strong liquidity and financial flexibility, reflecting our expectation that the authority will maintain liquidity levels near or above 400 days' cash on hand.

Environmental, social, and governance

We assessed GPA's environmental, social, and governance risks and opportunities relative to its market position, management and governance, and financial performance, and determined that, with the exception of environmental risks, we consider them neutral in our credit rating analysis. In our view, GPA is exposed to heightened environmental risks related to flooding, hurricanes, and sea-level rise given its location on the Atlantic coast.

Stable Outlook

Downside scenario

Although unlikely, we could lower the rating if the authority accelerates its capital plan and issues significant additional debt with the net revenue pledge, resulting in DSC and debt-to-EBIDA metrics consistent with a lower rating.

Upside scenario

We could raise the rating over the next two years if GPA meets or exceeds forecast container growth and we believe the authority can maintain DSC at levels we consider extremely strong.

Credit Opinion

Enterprise Risk Profile

Our assessment of the authority's enterprise risk profile as very strong reflects its extremely strong economic fundamentals, low industry risk, very strong market position, and very strong management and governance.

Economic fundamentals

The service area has extremely strong economic fundamentals due to its strength and size. Although, in our opinion, the primary service area for the authority is within the state of Georgia, particularly the Atlanta metropolitan statistical area, 45% of the U.S. population can be served within a 72-hour rail radius of Savannah.

In addition, the overall U.S. economy continues to grow because of the sharp return of consumer demand from pandemic lows despite continuing supply-chain disruptions, along with higher inflation. U.S. growth in fourth-quarter 2021 was strong and the effects of the omicron variant in first-quarter 2022 were less than expected; however, we anticipate economic conditions will also be affected by a normalizing of monetary policy, rising and more volatile energy prices, and the ongoing Russia-Ukraine conflict. On June 15, 2022, the U.S. Federal Reserve voted to increase its benchmark federal funds rate by three-quarters of a percentage point, the third of what we expect could be six rate hikes in 2022, with five more assumed in 2023-2024. S&P Global Economics has lowered its U.S. GDP growth forecast for 2022, to 2.4% from 3.2%, after measuring 5.7% for 2021 and 2.0% for 2023. We expect supply-chain disruptions will remain the largest stumbling block for the U.S. economy, with price pressures lasting well into this year and headline inflation reaching 6.7%. Part of this is due to rising energy costs, with oil and gas prices, on average, about

30% higher in 2022 than those assumed in our baseline. Importantly, we also assume that oil and gas will continue to flow from Russia to its energy trading partners. For more information, see "Economic Outlook U.S. Q3 2022: The Summer Of Our Discontent," published June 27, 2022, on Ratings Direct.

Market position

We consider the port's overall market position very strong, given it is a dominant provider of port services facing modest competition, primarily with South Carolina State Ports Authority. The port is strategically important to the regional economy as an import and export hub for manufacturers and other businesses in Georgia and neighboring states. The authority, primarily an owner-operated port as opposed to a landlord port, operates deep-water port terminals in Savannah and Brunswick, an inland terminal in Bainbridge, and an inland rail terminal in Chatsworth; a northeast Georgia inland port is under construction. Over the past 15 years, the authority's container volume has increased at a faster rate than that of any other major port in the country, with a 6.6% CAGR, reaching 5.3 million TEUs in fiscal 2021 (fiscal year-end June 30). The trend has continued in unaudited fiscal 2022 with container growth at 8.1%. In fiscal 2021, container cargo made up approximately 90% of operating revenues. Part of the growth is due to the location of facilities being advantageous for rail capabilities into the Midwest and with regional interstate access. The port is the second-most-connected U.S. port in terms of shipping connectivity, serving both Suez- and Panama-bound ships; and the third-largest gateway for containers in the U.S. outside of the San Pedro Bay complex and the Port Authority of New York and New Jersey. In addition to containers, GPA has capabilities to handle breakbulk (4.4% of total revenues in fiscal 2021), roll-on/roll-off ships (2.9%), and bulk cargo (1.2%).

In association with the proposed series 2022 issuance, GPA conducted a commercial analysis report delivered by Mercator to analyze the market of the port's business segments over the next 30 years. The report conservatively forecasts the container segment will fall slightly in fiscal 2023 but have a CAGR of 5.5% through 2032, increasing to 8.2 million TEUs. Revenues for GPA's consolidated operations are forecast to rise at a CAGR of 5.5% over the same 10-year forecast period while expenses are expected to increase at a CAGR of 7.4% for the same period. We view the growth assumptions as moderately aggressive.

Offsetting these strengths is the nature of the port sector business, which inherently depends on factors outside of GPA's control, such as service decisions by shipping lines, economic cycles, and competitive pressures.

Management and governance

GPA's management and governance, in our opinion, is very strong, reflective of our view of the authority's strategic positioning; risk management and financial management; and organizational effectiveness. Management has detailed financial disclosure, maintains a comprehensive strategic plan that it reviews annually, and prepares a detailed long-term financial plan and capital plans. The authority has a policy to maintain a minimum of nine months of days' cash on hand and has comprehensive targets related to environmental and community development, which are updated as part of the port's strategic plan. GPA is governed by a 13-member board as an authority of the state whose members are appointed by the governor, from the state at large. The authority has contracts with major shipping customers, typically ranging from three-five years, without minimum annual guarantees.

Financial Risk Profile

Our assessment of GPA's financial risk profile as very strong reflects the authority's very strong financial performance, extremely strong debt and liabilities capacity, and very strong liquidity and financial flexibility. Our financial risk profile assessment considers the authority's historical performance and pro forma figures that reflect the effects of the series 2022 bonds. The pro forma figures we evaluated are based on a financial forecast that was prepared in connection with the series 2022 bond issue. We consider the assumptions reasonable despite a moderately aggressive container volume forecast CAGR but also increasing annual debt service requirements. We also included in our analysis the potential for actual operating revenues trending lower than assumed in the projections due to lower-than-expected port container trends in lower revenue stress cases. Our financial profile assessment also considers the authority's financial policies, which we consider credit neutral.

Financial performance

The financial performance assessment reflects our expectation that DSC (S&P Global Ratings-calculated) will remain above 3.7x (per our lower revenue stress case) inclusive of additional debt expectations. Projected aggregate debt service, inclusive of additional borrowings, increases from approximately $16.3 million in fiscal 2022 to $79.2million in fiscal 2026 where it remains flat through fiscal 2052. Per the resolution, management's calculations of DSC remain above 5.0x through the forecast period. Revenues for the consolidated operations of the ports are forecast to rise at a CAGR of 5.0% over the 30-year forecast period while expenses are expected to increase at a CAGR of 5.2% during the same period, spurred primarily by growth in container volume and inland ports activity. We note that a substantial portion of GPA's capital plan is devoted to assets with significant revenue-generating capabilities, and therefore DSC could increase to extremely strong levels throughout the forecast period if the port meets or exceeds projections. We note that in unaudited fiscal 2022, net operating income (excluding depreciation) was $459 million, which was $210 million (84.4%) above budget and $164.5 million (55.9%) above fiscal 2021, reflecting the port's outperformance compared with projections.

Debt and liabilities

We assess GPA's debt and liabilities capacity as extremely strong, with debt to EBIDA expected to remain below 4.0x, per our calculations, including the effects of the proposed series 2022 bonds Historically, GPA has funded its capital projects primarily on a pay-as-you-go basis.

GPA has a variety of capital improvement needs focused on expanding capacity to support future growth at the port. The port has identified $4.4 billion of projects through fiscal 2032; 31% will be funded through the proceeds of recently issued series 2021 and proposed series 2022 bonds and the remaining 69% expected to be funded from internal sources. Although the CIP is large and will likely be ongoing, we believe the plan is manageable. We believe the capital projects are demand-driven and modular in nature, which enables the authority to defer or cancel certain projects, and the revenue-generating nature of the assets within the CIP somewhat mitigates credit risk related to its size and funding requirements.

Liquidity and financial flexibility

We assess GPA's liquidity and financial flexibility as very strong, based on our expectation that the authority will maintain unrestricted cash and cash equivalents of at least 400 days' cash on hand in the long term, or 50% of total debt in fiscal 2025. We expect the authority to operate above its informal minimum targeted liquidity threshold of nine months of operating expenses on hand as it continues to fund the CIP.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022