S&P Global Ratings

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Port of New Orleans Board of Commissioners; Ports/Port Authorities

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Credit Profile		
Port of New Orleans Brd of Commissioners		
Long Term Rating	A/Stable	Upgraded
Port of New Orleans Brd of Commissioners port facility rev & rfdg rev bnds ser 2018B due 04/01/2045		
Unenhanced Rating	A(SPUR)/Stable	Upgraded
Port of New Orleans Brd of Commissioners port facility (AGM)		
Unenhanced Rating	A(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings raised its long-term and underlying ratings on the Port of New Orleans Board of Commissioners, La.'s port facility revenue bonds to 'A' from 'A-'. The outlook is stable.

The upgrade reflects the application of our "U.S. And Canadian Not-For-Profit Transportation Infrastructure Enterprises" (TIE) criteria.

The rating reflects our opinion of the port's strong enterprise risk and financial risk profiles. The enterprise risk profile reflects the port's multimodal capabilities with access to six Class 1 railroads (two northbound, two eastbound, and two westbound), allowing direct and economical access to a wide variety of markets, and its importance to the regional economy. Competition from ports on the Gulf of Mexico and South Atlantic tempers these strengths. The financial risk profile reflects debt service coverage (DSC) metrics that we expect will be pressured but within a range we consider strong because the port's debt burden may rise to fund its capital improvement plan (CIP). Offsetting this is susceptibility to fluctuations in the shipping industry and other economic forces, which we expect to continue.

The enterprise risk profile reflects our view of the port's:

- Strong market position, due to relatively good diversity of operations from generally increasing cargo activity with containers and break-bulk cargo, cruise traffic, and rail operations, which fluctuating activity levels across different economic cycles offset;
- Extremely strong service area economic fundamentals, which include favorable GDP per capita, low unemployment, and a large population base;
- Low industry risk relative to that of other industries and sectors; and
- Very strong management and governance that we believe has established a track record of operating its major lines of business and managing risk.

The financial risk profile reflects our view of the port's:

- DSC (S&P Global Ratings-calculated) that we expect will be stressed but remain at levels we consider strong at approximately 1.9x , including the effects of potential additional borrowings;
- Very strong debt and liabilities capacity, including the CIP, which we consider manageable despite requiring additional debt; and
- Strong liquidity and financial flexibility because of the port's substantial available liquidity position and the potential to draw on the position to fund a portion of the CIP.

Senior-lien bondholders benefit from a net revenue pledge. The rate covenant requires net revenues to equal 125% of annual debt service for the senior lien bonds and to be sufficient to meet all port obligations. We view the bond provisions as credit neutral.

The port acquired New Orleans Public Belt Railroad Commission (PBRC), which provides the port with direct market access through six Class 1 railroads (Burlington Northern/Santa Fe, Canadian National, CSX, Kansas City Southern, Northern Southern, and Union Pacific), effective Feb. 1, 2018, from the city of New Orleans. With this acquisition, the port has absorbed the PBRC's associated revenues, expenses, cash reserves, and debt. While the commission has minimal debt, it adds $13.0 million in operating revenue and approximately $1.2 million in net income before depreciation to the port. While this is a relatively modest increase in net income, the port management has plans to further promote this asset and it could be a source of growth. However, the port is evaluating its broader strategic initiatives for the PBRC, which could involve additional debt or capital costs associated with an asset recently under different ownership.

Outlook

The stable outlook reflects our view that financial metrics will remain in line with historical levels and cargo activity will be generally stable, with some moderate volatility.

Upside scenario

We do not expect to raise the rating in the next two years given the port's potential long-term borrowing plans and competition from ports on the Gulf of Mexico and South Atlantic coast.

Downside scenario

Although unlikely during our outlook period, substantially lower activity levels or significant additional debt that leads to a decline in total DSC could cause us to lower the rating.

Enterprise Risk

Our assessment of the enterprise risk profile considers the port's service area economic fundaments, industry risk, market position, and management and governance.

Economic fundamentals

In our view, the port's primary service area (the State of Louisiana) maintains extremely strong economic fundamentals. Exemplifying this are the state's GDP per capita of approximately $50,535, 2017 unemployment rate of

5.1% that is slightly above the national rate of 4.4%, and a sizable population base supporting demand at the port. However, we also consider the broader area the port serves from a general cargo and cruise passenger perspective.

Market position

Our market position assessment considers the port being one of the largest general cargo ports in the nation. General cargo consists of break-bulk and containerized. The port handled about 2.7 million short tons of break-bulk cargo in fiscal 2018, down from about 3.0 million in fiscal 2017, because of the impacts from tariffs. It has the ability to handle most types of cargo. Total general cargo also declined 3.7% in 2018. Although the port is primarily geared toward general cargo, it handles a significant amount of bulk cargo as well. Bulk cargo consists of grain, petroleum products, and cement, and is mostly handled at private facilities within the port's jurisdiction. For fiscal 2018, the port handled approximately 31.9 million tons of total bulk facilities, up 6.2% from Dec. 31, 2017.

The primary competition comes from ports on the Gulf of Mexico and the South Atlantic coasts. On the Gulf of Mexico, chief competitors are Houston; Gulfport, Miss.; and Mobile, Ala. On the South Atlantic Coast, main competitors are Miami and Jacksonville, Fla.; Savannah, Ga.; and Charleston, S.C. All of these ports are closer to the open sea than the Port of New Orleans, with Houston and Savannah having inland transits similar to the port, but not as great a distance. In addition, ships docked at the ports on the Atlantic have a shorter transit time to Europe. Miami has a similar advantage on trade routes to Latin America. Houston's main advantage is its large industrial base, which accounts for the majority of that port's cargo movement and provides an economy of scale that attracts additional cargo activity. Gulfport serves a niche market of temperature-sensitive cargoes (such as bananas), but has little room to expand.

The Port of New Orleans is well-positioned geographically compared with competing ports for trade with Central America and the west coast of South America. Moreover, its inland waterway system and six trunkline railroads make it the nation's leading port for a number of commodities. It leads in the import of iron and steel, and in natural rubber; it is No. 2 in coffee. Furthermore, the London Metals Exchange's certification of storage facilities in New Orleans has resulted in the growth of nonferrous metal cargoes, which further differentiates the mix of commodities it handles. Nonferrous metal has grown to 1.2 million short tons in fiscal 2018 from 300,000 in fiscal 2014.

Cruise operations, representing 19.2% of total operating revenues in fiscal 2018, have rebounded and are rising. The number of cruise passengers increased 0.5% in fiscal 2018 to 1.1 million passengers after increasing by 5.1% in fiscal 2017. The port expects cruise traffic to continue increasing as new services are introduced.

Management and governance

The managerial and governance assessment reflects the port's strategic positioning; risk management and financial management; and organizational effectiveness. The board is an independent subdivision of the state, and is governed by seven commissioners appointed by the governor. We consider management practices and internal controls credit neutral. The board has a good track record of operating the port facilities and managing the authority's finances, and we expect it will manage the CIP prudently.

The port has an internal target to maintain DSC, as per the indenture, above 2x with ample liquidity policies to maintain financial flexibility through the CIP's execution. We also believe management has strong knowledge of the markets and industry in which it operates.

Financial Risk

The financial risk assessment profile considers the port's financial performance, debt and liabilities capacity, and liquidity and financial flexibility. Our assessment considers, in addition to the authority's historical performance, pro forma figures that reflect the port's potential plan to issue up to $90 million in bonds to fund its near-term CIP. Pro forma figures include anticipated rising annual debt service obligations, an increased overall debt burden, some draws on cash to fund the CIP, and steady-but-modest increases in demand and related net revenue growth. Our financial profile assessment also considers financial policies, which we view as credit neutral.

Financial performance

The financial performance assessment reflects our expectation that DSC (S&P Global Ratings-calculated) will remain strong because we believe the system is robust enough to maintain its financial profile through its CIP, although this is subject to the timing and size of any borrowings. Coverage (S&P Global Ratings-calculated) on all obligations, including the repayment of the debt service assistance loan from the state, was approximately 2.2x and 2.0x in fiscal years 2018 and 2017, respectively. Senior coverage per the indenture in 2018 is 3x, and 2.7x for subordinated coverage.

We expect DSC will remain strong even if the port issues debt as it proceeds with its long-term CIP. However, a substantial portion of the plan is to increase revenue-generating capabilities by expanding capacity, so we expect DSC will remain at strong levels through the forecast period.

Debt and liabilities

The debt and liabilities capacity assessment reflects our expectation that debt to net revenues will likely remain under 10x in the near term. We expect that revenue growth will somewhat offset the rising debt burden and translate to debt-to-EBIDA metrics near 8.9x. Management could issue up to $90 million in additional debt for expected capital needs over the next two years. Debt needs might change depending on supplementary management reviews or available liquidity funding part of the CIP. The port's debt profile is limited to fixed-rate bonds and it is not exposed to variable-rate debt.

We consider the port's near-term CIP manageable for the size of its facilities, at about $366 million, with a significant portion of the plan to be debt financed, although long-term capital needs may be substantial. Near-term capital projects include improvements to the container handling assets, projects to enhance break-bulk cargo operations, replacing the Almonaster bridge, and the Poland Avenue Wharf substructure and repair. As demand warrants, management incorporates additional infrastructure projects into its plan, but the sizing and timing remain flexible. Most projects are growth-driven and could be scaled down should demand decrease. However, we will monitor the port's CIP as it completes its long-term strategic master plan. Management is evaluating a new container terminal estimated at approximately $1 billion, and second cruise terminal that it expects would cost less than $100 million.

Liquidity and financial flexibility

The liquidity and financial flexibility assessment reflects our opinion of the port's available liquidity supportive of the ongoing operations and capital needs with potential drawdowns. Historically, the port has exceeded a year's cash on hand since 2007. In fiscal 2018, unrestricted reserves of $72.6 million equaled approximately 444 days' cash on hand, or about 48% debt outstanding. Although we expect some spending for the CIP will lower available liquidity, the port has previously rebuilt cash reserves quickly after capital-intensive periods.