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Summary:

South Carolina State Ports Authority; Ports/Port Authorities

Primary Credit Analyst:
Anita Pancholy, Dallas (1) 214-871-1402; anita.pancholy@standardandpoors.com

Secondary Contact:
Peter V Murphy, New York (1) 212-438-2065; peter.murphy@standardandpoors.com

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Summary:

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Credit Profile		
US$289.105 mil rev bnds ser 2015 due 06/30/2056		
Long Term Rating	A+/Stable	New
South Carolina State Ports Authority		
Long Term Rating	A+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services has assigned its 'A+' rating to the South Carolina State Ports Authority's (SCSPA) series 2015 port revenue bonds. At the same time, Standard & Poor's affirmed its 'A+' rating on the port's 2010 bonds. The outlook is stable.

The rating reflects our assessment of the credit profile of the Port of Charleston, an operating container port that has historically maintained what we consider strong operating margins. We expect these to stay strong at albeit lower levels as the port implements its large, demand-driven capital program.

More specifically, the rating reflects what we view as the following credit strengths:

- Strong aggregate debt service coverage (DSC) of 4.2x in fiscal 2015, and healthy pro forma maximum annual debt service (MADS) coverage of 2.2x, in addition to a good liquidity position (743 days' cash on hand) as fiscal year-end 2015 (June 30);
- A well-balanced cargo flow between container imports and exports, combined with good diversity among its largest customers, with the top three accounting for 39% of fiscal 2015 revenues; and
- The authority's solid regional position as provider of maritime infrastructure in the Southeast.

We believe the following weaknesses somewhat offset these strengths:

- A significant-but-flexible capital plan totaling $1.3 billion million through 2025 that is intended to position the port more competitively, but will require additional financings in the medium-to-long term;
- Strong competition from other container ports on the coast, particularly in Savannah, Ga., and Norfolk, Va.; and
- Financial operations that are sensitive to changes in cargo volume.

The SCSPA's net revenue secures the bonds. With this issue the authority will have approximately $483.0 million in revenue bonds outstanding. A debt service reserve funded to 50% of MADS provides additional liquidity. We consider other bond provisions to be industry-standard. Bond proceeds will finance improvements to the port's existing facilities and complete remaining site development of the port's new Navy Base Terminal.

The authority has three interest rate swaps outstanding that are all unhedged and do not related to any bonds. The

swap portfolio includes two floating-to-fixed-rate 70% LIBOR swaps a(Goldman Sachs Capital Markets, guaranteed by The Goldman Sachs Group Inc. and Wells Fargo Bank N.A.) and one fixed-to-floating-rate SIFMA swap (Goldman Sachs Capital Markets [guaranteed by The Goldman Sachs Group]). The authority's net mark to market as of June 30, 2015, was $974,000 out of its favor; however, given its strong liquidity position, we do not believe this is a rating concern.

The SCSPA operates two ports: the smaller Port of Georgetown (a 45-acre facility approximately 60 miles northeast of Charleston that is limited by harbor depth); and the larger Port of Charleston, where the overwhelming share of revenue-producing activity occurs. The Charleston facility can accommodate nearly all cargo types. It has six terminals, with 1.5 million square feet of warehouse and transit shed space and more than 500 acres of cargo storage space for import and export, break-bulk cargo, roll-on and roll-off (for instance, cars and trucks), as well as containerized cargo. In 2013, the port additionally opened its Inland Port in Greer, S.C., expanding its rail services as well. The port recently received a U.S. Army Corps of Engineers Chief's Report recommending a channel depth of 52 feet and has generally received strong state support for the project.

Port operations have been what we consider strong with the recovery in the economy. Ship calls decreased from 2005-2010, but rebounded by 24.1% since a 2010 to 1,896 in 2015. Similarly, container throughput increased 50% compared with fiscal 2010 levels, to 1.9 million 20-ton equivalent units (TEUs). Cargo activity, when measured by break-bulk tonnage, number of vessels, or TEUs has improved in each of the past three years (2013-2015), yet remains below 2006 prerecessionary levels. Declines in container traffic and general cargo tonnage can affect the SCSPA's financial performance; however, its financial metrics have remained at levels we still consider strong.

Unlike some U.S. ports that function primarily as landlords with no significant role in cargo handling and processing, the SCSPA's staff operates all container cranes and container-handling equipment, effectively serving as the terminal operator. In January 2011, management adopted a single operating model for all shipping lines whereby the authority manages all yards and concessions the gate operation to a private company, Charleston Gate LLC, thereby streamlining operations. The authority also owns and operates a cruise terminal at its facilities in downtown Charleston. The port initiated a weekly turnaround call, with Carnival Fantasy Cruise Lines providing the majority of service. Cruise ship revenues for the port come mainly from a head tax and automobile parking revenues.

We view management as experienced and focused on the SCSPA's business plan, which is designed to increase market share and expand the existing base of shipping lines. The governor appoints a nine-member board of directors to oversee the authority. There are also two nonvoting, ex-officio state members (the Secretary of Commerce and Secretary of Transportation). In our view, the Port of Charleston has relatively good diversity among its top 10 customers.

The port's operating performance has been strong, in our view, and although with additional leverage we expect financial margins to decline, we expect DSC and liquidity to remain within a range commensurate with the 'A+' rating. Robust demand bolstered operating revenues 19.9% in fiscal 2015 to $196.8 million, following a 16.9% increase in fiscal 2014. Operating expenses also grew substantially to $132.5 million, albeit at a slower 12.8% growth rate in fiscal 2015. DSC, which we calculate including the port's subordinate obligations, was 4.2x. With the 2015 issue, we expect pro forma MADS coverage to remain strong at 2.20x based on fiscal 2015 results. The authority's aggregate debt

service schedule descends, stepping down to $24.9 million in 2027 from approximately $28.0 million post-issuance. In addition to the revenue bonds, the SCSPA has approximately $28.0 million in a 2013 promissory note outstanding and $10.8 million drawn on a potential $14.0 million loan. The port expects to issue an additional $335 million in revenue debt through fiscal 2020, which we expect will lower DSC. However, management has forecast under a low scenario, which would include implementation of some components of its capital plan and lower revenues, that DSC would be no lower than 1.87x.

We believe the SCSPA's unrestricted cash and investments have been strong historically and is a key credit strength. Fiscal 2015 unrestricted cash and investments totaled approximately $269.9 million providing approximately 743 days' cash on hand. The port expects to fund its capital improvement plan with unrestricted reserves, however, and we expect this figure to decline to no lower than 270 days' based on unrestricted balances.

The authority's $1.3 billion, 10-year capital improvement plan (CIP) is large, in our view. It includes the potential construction of a container terminal and key infrastructure improvements that will strategically position the port for larger ships. The plan calls for additional financing and planned draws on authority cash. However, we consider it manageable for a port of this size. The capital plan includes the costs for maintaining and improving the authority's facilities as well as for portions of the planned container terminal known as the Navy Base Terminal. Approximately $609 million is earmarked for improvements to existing infrastructure and $735 million focuses on enhancing capacity through the terminal's construction. The three-year plan for terminal upgrades totals $523 million. Near-term projects include

improvements to the Wando Welch Wharf, two new super-Post-Panamax cranes, refrigerated upgrades, and site development work at the future Navy Base Terminal.

In addition to the 2015 bonds, the authority expects to fund its CIP with an additional $350 million in additional debt. Management expects to issue $230 million and $150 million in debt in 2019 and 2020, respectively. Authority cash will fund an additional $592.4 million of the CIP.

Outlook

The stable outlook reflects our expectations that DSC and liquidity levels will remain strong during the two-year outlook period. The outlook also reflects our expectation that port volume will remain stable and supporting credit quality.

Upside scenario

We don't expect to raise the ratings during the two-year outlook period, given the likelihood that financial margins will decline beyond the outlook horizon as the port further leverages.

Downside scenario

We could lower the rating if the port's capital costs outpace growth in volume and revenues to support additional leverage. We could also lower the rating if financial margins or liquidity levels are materially lower than our expectations.

Related Criteria And Research

Related Criteria

- USPF Criteria: U.S. Not-For-Profit Acute-Care Stand-Alone Hospitals, Dec. 15, 2014
- USPF Criteria: Contingent Liquidity Risks, March 5, 2012
- Criteria: Port Facilities Revenue Bonds In The U.S. And Canada, March 19, 2014
- USPF Criteria: Methodology: Definitions And Related Analytic Practices For Covenant And Payment Provisions In U.S. Public Finance Revenue Obligations, Nov. 29, 2011
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

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