MOODY'S
INVESTORS SERVICE

CREDIT OPINION
27 July 2022

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Georgia Ports Authority

Update to credit analysis

Summary

The credit profile of Georgia Ports Authority ("GPA" senior revenue bonds rated Aa2 stable) reflects 1) excellent financial flexibility, with robust cash flow, low debt, and a competitive and flexible cost structure; 2) substantial market position, as a nationally significant gateway port with increasing scale and improving infrastructure capability; 3) above-average growth prospects, driven by supportive regional demographics and ongoing market share gains; 4) conservative financial management, with strong debt service coverage and solid liquidity projected to be maintained through the funding of a sizeable 12-year capital plan; and 5) favorable governance linkage with the State of Georgia (Aaa stable), which has included significant direct and indirect support in addition to management involvement and alignment on economic development and transportation planning.

Robust debt service coverage ratios, in excess of 5.0x through the forecast period, balance volume risk and provide resilience to unanticipated financial challenges. GPA will have to manage a sizeable and multi-faceted capital spending plan as it adds significant new capacity over the next 10 years. The authority has successfully delivered several large projects in recent years; nearly 70% of planned spending will be funded internally; and the program is expansion-oriented and demand-driven. This supports our expectation that the plan will be executed as outlined and the authority will retain above-average financial flexibility to adapt as needed during the forecast period.

Credit strengths

» Robust projected debt service coverage: 5.0x minimum, over 6.3x average, including all planned debt issuance through the forecast period

» Strong cargo demand from above-average population growth and robust industrial activity in Georgia and the Southeast

» Competitive productivity and handling costs as a result of operational/organizational structure

» Strong support from the state of Georgia (Aaa stable), which has contributed GO bond proceeds of $350 million for the Savannah Harbor Expansion Project, $550 million for terminal expansion and improvements from 1985-2007, and is expected to provide funding, along with any potential federal funds, for a new or raised Talmadge Bridge

Credit challenges

» The Southeast port market is competitive, with ports in Charleston and Norfolk competing to serve cargo in the broader region

» Water depth differential with East Coast ports could constrain growth potential

» Large capital plan to accommodate expected growth

Rating outlook

The stable outlook reflects our view that the port's credit profile will remain stable over the next 12 to 18 months. A strong financial position, supported by robust cash flow and liquidity, along with elevated volume and incremental capacity to facilitate growth will contribute to stable performance.

Factors that could lead to an upgrade

» At Aa2, GPA is currently our highest rated port, along with the Port of Los Angeles and Port of Long Beach. The rating is unlikely to be upgraded due to risks inherent in the business, but upward pressure could result from material improvement in the port's market position and financial profile.

Factors that could lead to a downgrade

» A material, and sustained, adverse change in the existing trading regime that results in significantly lower revenues or volumes for the port.

» Significant deterioration of the port's competitive position, reflected in reduced market share in nondiscretionary and discretionary cargo segments and a sustained period of cargo growth meaningfully below the sector average.

» Weakened financial position reflected in a sustained period of DSCRs below 3x and days cash on hand below 500.

Key indicators

Exhibit 1

Georgia Ports Authority
Fiscal year end June 30

	2017	2018	2019	2020	2021
TEU Annual Growth (%)	6.7	8.4	7.2	-0.9	20.2
Operating Revenue ($'000)	372,983	426,382	473,619	481,728	615,429
Operating Ratio (%)	54.8	54.7	55.8	57.5	52.2
Adjusted Debt to Operating Revenue (x)	0.07	0.39	0.31	0.44	0.42
Days Cash on Hand	547	596	577	515	557

Adjusted Debt includes Moody's Adjusted Net Pension Liability for 2018-2021
Source: Moody's Investors Service

Profile

The Georgia Ports Authority is an instrumentality of the State of Georgia. The authority is an operator port authority. It owns and operates deep water port terminals in Savannah and Brunswick, an inland terminal in Bainbridge, and an inland rail terminal near Chatsworth. The Port of Savannah is the third-largest container gateway, and the Port of Brunswick is the second-largest auto port, in the US.

Detailed credit considerations

Revenue Generating Base

Recent developments

GPA is performing well above our base case from initial rating assignment in October 2021. Container volume grew 8.4% in fiscal 2022, leading the sector, driven by a combination of organic growth and market share gains from both regional and national gateway ports. Fiscal 2022 container volume is roughly 30% above the fiscal 2019 level, and revenue is significantly higher. Even if near-term economic growth deteriorates, or contracts, we expect volume will remain well above pre-COVID levels.

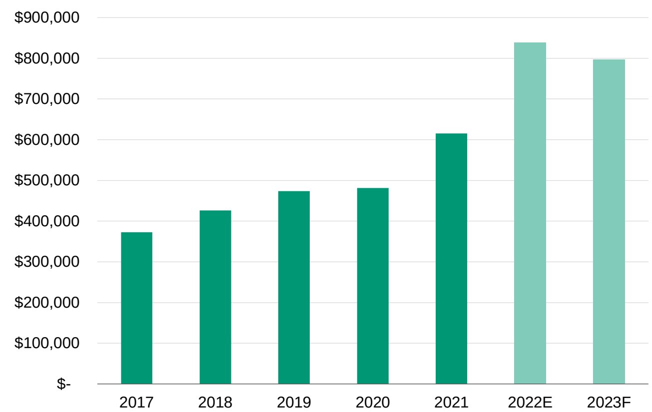
Revenue and cash flow are at exceptionally high levels, driven by storage and other ancillary charges collected during a period of heightened congestion/supply chain challenges. Operating revenue grew nearly 35% in fiscal 2022, and is now 80% above fiscal 2019. This has been driven in part by unusually elevated storage revenue; underlying rates have not risen as much, and as such we expect the average rate will come down as congestion and demand normalize over the next year or two.

However, the growth also reflects the benefit of higher contract rates implemented by GPA to compensate for inflationary pressures and the sizeable capital investments it is funding. While we expect storage revenue will decrease as supply chain conditions improve, we also expect higher stevedoring rates and new terminal revenues will increasingly support unit revenues above the prior trend. A reduction in storage revenues would also correspond to an improvement in dwell times, which would increase effective throughput capacity and allow GPA to operate more efficiently.

Exhibit 2

Revenue and cash flow are significantly elevated…

Revenue (in thousands)

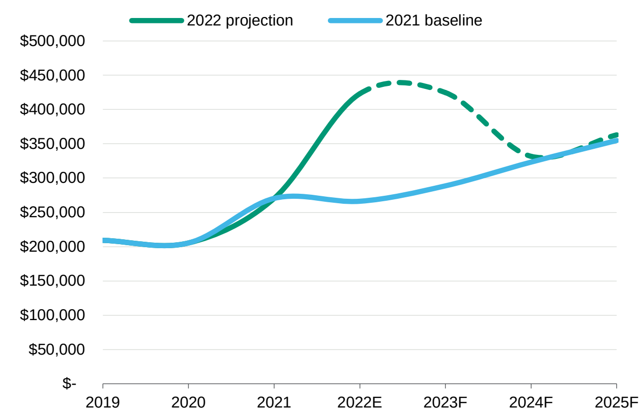


Source: Moody's Investors Service, Georgia Ports Authority

Exhibit 3

… and far above plan, but forecast to return to trend

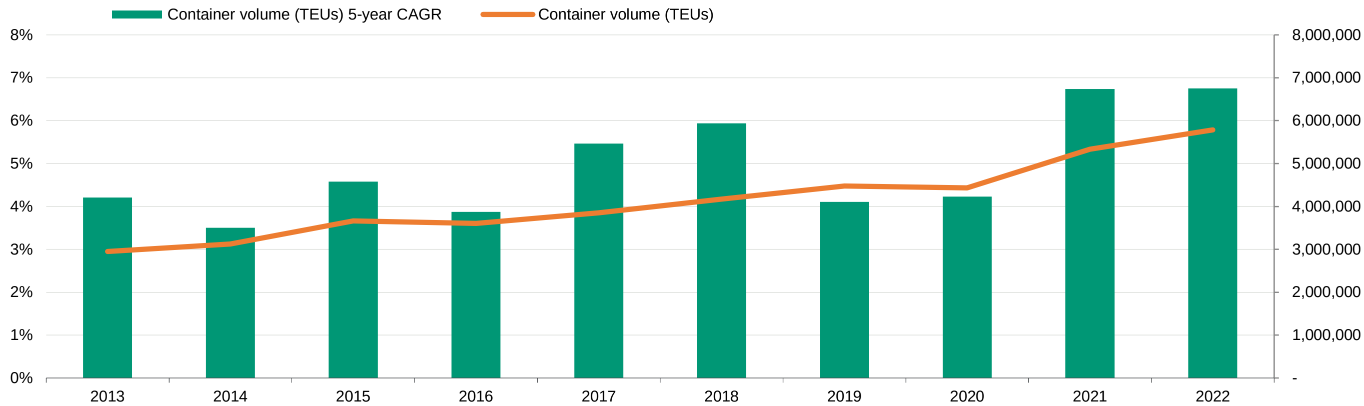
Net revenue (in thousands)



Source: Moody's Investors Service, Georgia Ports Authority

We expect GPA will continue to grow above the sector average, facilitated by significant ongoing infrastructure investment. Capital projects currently underway will increase capacity by 25% over the next 12 months, and the redevelopment and expansion of Ocean Terminal will add new berth and container yard capacity by fiscal 2026, providing a second major facility to support growth alongside Garden City Terminal. Fiscal 2022 marked the completion of two critical projects for enabling future growth: 1) the Savannah Harbor Expansion Project, which allows GPA to handle larger and more heavily loaded container vessels with fewer weight and tidal restrictions, and 2) the Mason Mega Rail Project, the largest on-terminal rail facility in the US, which expands GPA's service area to inland markets.

Exhibit 4
Favorable volume growth will support revenue generation as unit rates normalize



Source: Moody's Investors Service

Growing regional market, coastal share shift, will drive long-term cargo demand

Savannah has grown roughly twice as fast as the sector for the last decade and we expect it will continue to grow at an above-average rate going forward. This will be driven by 1) favorable demographics in the regional market – population is growing in the Southeast at a rate almost twice the US average – and 2) incremental coastal market share shift and penetration of new inland markets.

The ability to competitively serve more inland locations will be facilitated by a deeper harbor and significant new on-dock rail capacity. Specific improvements include 1) a 5-foot deeper harbor with a wider tidal window, 2) a doubling of on-terminal rail lift capacity, to 1 million containers, along with the ability to build unit trains at Garden City Terminal, and 3) a near doubling of marine terminal capacity over the next decade. As the scale of container operations continues to increase, this will reinforce the role of Savannah as a regional hub and national gateway.

Retail users provide consistent base of import demand

Growth has been driven by the adoption of Savannah as a regional hub for distribution and logistics operations by nearly all major retailers and third-party logistics providers.

This is the direct result of a strategy by state and local economic development entities to attract import distribution operations in order to develop local import demand that did not otherwise exist due to the modest population base in the port area. This also served to diversify the agricultural/industrial export orientation of the cargo base and provide exposure to the dominant driver of import cargo (i.e., retail) in the broader US port market. The strategy has been highly successful, and Savannah now hosts the largest retail import distribution and logistics cluster in the Southeast, which is a key competitive advantage in attracting and retaining import volume versus regional ports like Charleston.

Competitive port charges and productivity

As distinct from many US ports, all major equipment is operated by non-union authority employees. Many terminal operators on the East Coast are either integrated with or rely on stevedores that use ILA labor hired on a daily, temporary basis, for the majority of their operations. However, Georgia (and South Carolina), employs non-union state workers on a full-time basis to operate container cranes and yard equipment (primarily rubber tired gantry cranes). While this model increases the ratio of fixed costs relative to terminal operators with more variable labor hiring, the use of non-union employees allows the authority greater staffing flexibility and lower commercial rates for these employees, which it is able to pass through to customers in the form of high productivity and low port charges.

Water depth and bridge height not expected to constrain growth

GPA has less water depth than Charleston and Norfolk, which could limit its ability to serve ultra large ships. This is a notable difference in infrastructure, but it is unclear how this will manifest and Savannah has grown substantially despite the same differential existing.

Savannah will be able to handle 18,000 TEU ships, which are larger than the vessels capable of transiting the Panama Canal and are unlikely to be deployed on Suez services in the next 10 years. The Savannah River provides 7 feet of tidal lift or 54 feet of depth at high water, which allows the port to handle large ships using tidal windows. Further, 80% of Savannah's volume is transported to/from the port by truck, which can't economically be routed through Norfolk and could discourage routing through Charleston.

The State of Georgia is evaluating options for increasing the vertical clearance of the Talmadge Bridge, currently 185 feet, and we expect the risk of overhead restriction will be resolved in the next decade.

Financial Operations and Position

GPA has excellent financial strength. This is reflected in low leverage, significant cash flow, consistently well managed expenses, and flexibility regarding planned spending for demand driven capital projects.

Financial margins are strong and have exhibited a long-term, sustained trend of improvement, supported by operating leverage and the unique nature of Garden City Terminal and economies of scale it affords. GPA has a low cost structure; an operating ratio that leads operator ports and is comparable to landlord ports; and management has demonstrated consistent control of expenses through a range of environments. Management indicates 70% of operating costs are variable, as 75% of the workforce is hourly (non-exempt) employees, which provides flexibility.

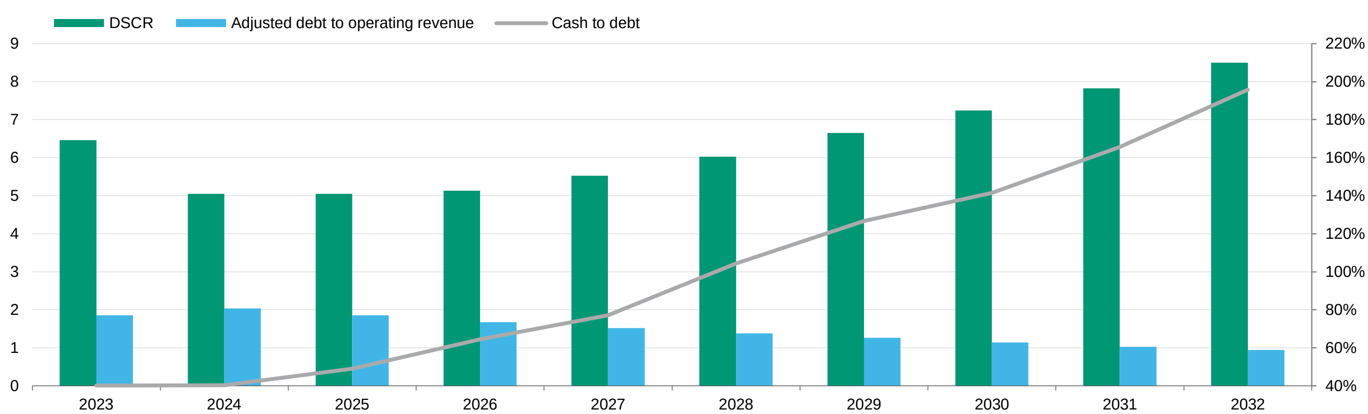
"Aaa" coverage and very low leverage projected through forecast period

The low leverage reflects in very strong debt service coverage – coverage will remain over 5.0x with the 2022 issuance – and cash to debt, which significantly mitigates volume risk from the authority's operator model. GPA's 10-year financial plan does not currently include additional debt.

Exhibit 5

Strong financial flexibility expected through implementation of the capital plan

Coverage and leverage (LHS), liquidity (RHS)



Source: Moody's Investors Service

Credit supportive governance linkage with State of Georgia

The authority is a critical component of Georgia's economy and benefits from strong explicit and implicit state support, a credit positive. This support manifests in the form of state-issued bonds for terminal facilities; extraordinary aid for dredging; transportation improvements at Garden City Terminal; and potentially the construction and funding of a new bridge. Georgia has also been instrumental in economic development initiatives and support for the location and expansion of major port customers in the state. Additional support is provided in the form of close coordination/involvement in economic development and transportation planning with state agencies.

Liquidity

Liquidity is healthy and has strengthened consistently in recent years, notwithstanding significant capital spending. GPA ended fiscal 2021 with 534 days cash on hand, and no debt – we expect liquidity will remain robust or strengthen further in fiscal 2022 given the strong revenue and cash flow growth.

We view recent levels, close to or above 500 days cash on hand for the last five years, as representing a solid liquidity profile. GPA has an informal policy to maintain working capital equal to 9 months of operating expenses. While we view this level alone as modest, GPA has historically maintained more cash than this target and forecasts that it will continue to do so. Strong liquidity is an important credit consideration because of the volume risk and capital intensity in the authority's operating model.

Debt and Other Liabilities

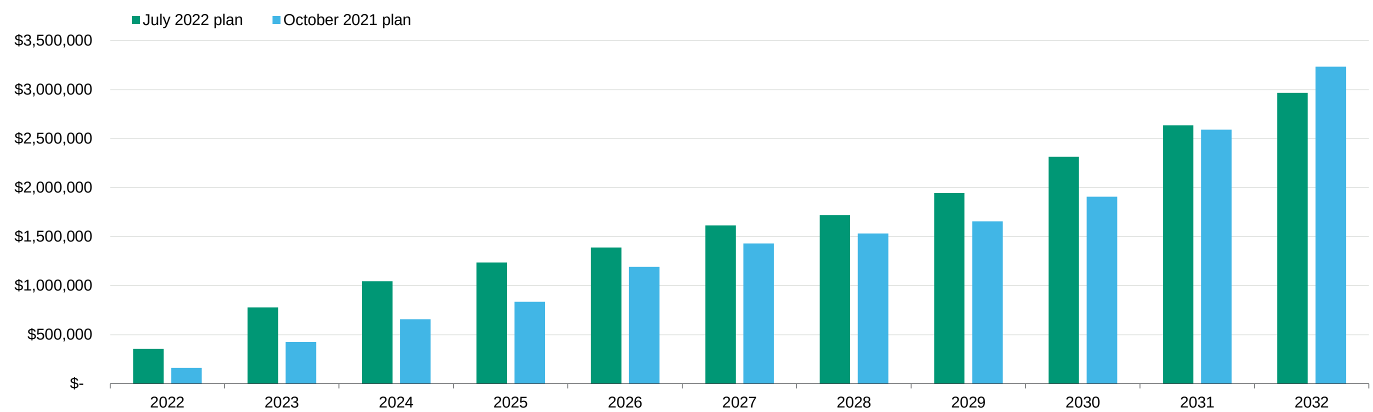
GPA continues to make major capital investments, but it has the cash flow and balance sheet to accommodate the funding with limited credit impact. Nearly 70%, or $3.0 billion, of GPA's 12-year (fiscal 2021-2032) capital plan will be funded internally, and no additional borrowing is anticipated. GPA's liquidity is forecast to strengthen during the capital plan, indicating headroom above its funding requirements that provides flexibility. We also believe spending can be adjusted to align with demand if needed, given that a large portion is for expansion.

The capital plan does not entail additional debt (2024 through 2032), and the authority has opted to prioritize expansion by redeveloping Ocean Terminal before constructing the new Savannah Container Terminal. This is a less capital intensive, and less technically complex, option, and as a result out-year spending is expected to be lower than previously anticipated.

Exhibit 6

Expansion through Ocean Terminal results in slightly lower total capital spending

Cumulative capital spending by forecast (in thousands)



Source: Moody's Investors Service, Georgia Ports Authority

We expect the DSCR will be maintained above 5.0x and that leverage will stabilize and ultimately moderate after 2024.

Legal security

The bonds are secured by a first lien on net revenues of port facilities. Bondholder protections include a 1.25x net revenue rate covenant and additional bonds test. The resolution provides that GPA can elect to fund a debt service reserve account for each bond series; GPA has not funded a debt service reserve account for any series.

Debt structure

All bonds are fixed rate, fully amortizing senior lien obligations. The 2021 Bonds and 2022 Bonds have final maturities in 2051 and 2052, respectively, and are structured to produce level annual debt service.

Debt-related derivatives

None.

Pensions and OPEB

The authority reported a net pension liability of $1.3 million in fiscal 2021. Using Moody's standard adjustments to reported pension data, we calculate an adjusted net pension liability (ANPL) of $260 million in fiscal 2021 (based on a June 30, 2020, measurement date). The main difference between the port's reported net pension liability and Moody's ANPL is the rate used to discount the pension liability, which was 7.3% for the port and 2.7% for Moody's.

Moody's adjusts the reported pension liabilities of entities that report under governmental accounting standards in order to enhance comparability across rated issuers. Under governmental pension accounting, liabilities are discounted using an assumed rate of investment return on plan assets. Under Moody's adjustments, we value liabilities using a market-based discount rate for high quality taxable bonds.

We view the pension liability as contained. Plan eligibility was closed to new participants effective July 1, 2011, and has been replaced by a defined contribution plan. The authority has contributed well in excess of the actuarially determined level in recent years and has maintained a nearly fully funded status, reporting a net pension asset in 2018 and 2019. Over the last four years (2018-2021), the ANPL has averaged $176 million, or a low 0.35x operating revenue. The closed nature of the plan will contain and ultimately eliminate the liability, and GPA has demonstrated a commitment to proactively managing it.

ESG considerations

Environmental

At the port sector level, overall credit exposure to environmental risks is moderate, reflecting exposure to carbon emissions from ocean vessels, cargo handling equipment, and truck or rail carriers, the majority of which operate diesel-powered equipment. The moderate risk also reflects exposure to coastal storms, sea level rise and severe weather, as many ports are situated in coastal locations with limited to no elevation above sea level.

Social

Social issues can either weigh on or enhance the credit quality of ports. Social considerations most relevant to our credit analysis include (1) customer relations, (2) human capital, (3) health and safety, (4) responsible production and (5) demographic and societal trends. There are four potential channels through which social issues generally affect credit quality — reputational, operational, litigation and regulatory risks.

Governance

The authority operates as a self-supporting governmental enterprise. The authority has no stockholders or equity holders and is directed by a governing board whose members are appointed by the Governor, from the State at large, to serve four-year, staggered terms. Of the 13 governing members, 12 are appointed by the Governor, and the Director of the Governor's Office of Planning and Budget is an ex officio member. The authority's financial statements are included in the State's general purpose financial statements as a discretely presented component unit.

The strong explicit and implicit support from the State of Georgia (Aaa stable), which has provided support to GPA in the form of real estate development, economic development, transportation infrastructure investment and direct capital contribution, is a positive factor incorporated in our assessment of the credit profile. We also incorporate the essentiality of GPA to the state in facilitating trade, economic development and a competitive business environment.

Rating methodology and scorecard factors

The principal methodology used in these ratings was Publicly Managed Ports Methodology published in June 2019. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

The scorecard-indicated outcome for Georgia Ports Authority is Aa1, which is above the assigned rating of Aa2. Key credit metrics are based on the 3-year average for fiscal 2025-2027.

Exhibit 7

Publicly Managed Ports

Factor	Subfactor	Score	Metric
1. Market Position	a) Port Size (Operating Revenues) ($ million)	Aaa	$936
	Service Area and Competition	Aa	
	Operational Restrictions	Aa	
2. Volatility and Diversity	a) Operating Revenue Volatility)(5-year operating revenue CAGR)	Aa	3.3%
	b) Customer Diversity	Ba	
3. Capital Program	a) Capital Needs Requiring Leverage	Baa	
4. Key Credit Metrics	a) Net Revenues DSCR (3 year avg)	Aaa	5.3x
	b) (Debt + ANPL) to Operating Revenue (3 year avg)	Aa	1.68x
Preliminary Scorecard Indicated Outcome:		**Aa2**	
Notching Considerations		**Notch**	
	1 - Tax Support for Operations	0	
	2 - Liquidity- Cash to Debt	77%	0.5
Scorecard Indicated Outcome:		**Aa1**	

Scored to estimated fiscal 2027

Source: Moody's Investors Service

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