

# THE BOND BUYER

## PortMiami prepares to issue \$500 million of seaport revenue bonds

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Miami-Dade County is preparing to come to market this summer with a \$500 million bond issue to help expand PortMiami's ability to cater to cruise passengers.

The county expects to issue more than \$499 million of taxable Series 2023 fixed-rate senior lien seaport revenue bonds, with a final maturity in 2056. The pricing is expected later this month.

Proceeds, along with additional monies, will be used to fund the costs of the Royal Caribbean Cruises Ltd. (RCG) campus project as well as a debt service reserve fund.



A cruise ship departs for a simulated voyage from PortMiami. "The strength of the recovery is quite remarkable after the shutdown of cruise operations during most of the COVID-19 pandemic," Moody's said. **Bloomberg News**

The project consists of the development and construction of an office campus at the port to serve as the global headquarters for Royal Caribbean, including a building and various improvements to parking and other portions of the campus.

PortMiami is located on an island in Biscayne Bay about one half mile from the city of Miami. It's the largest multi-day homeport for cruise vessels in the world and also boasts sizable cargo operations. The port is operated as an enterprise of the county and has the county's implicit and direct support.

In fiscal 2022, more than 4 million cruise passengers passed through the port and its cargo operations processed 1.2 million TEUs, or twenty-foot equivalent units, which is a unit of measurement used to determine cargo capacity for container ships and terminals.

Fitch Ratings has assigned an A rating and stable outlook to the bonds.

"The rating reflects PortMiami's fundamental operating strengths, including its global leading cruise port market position and its role as one of the largest ports

in the state of Florida in terms of cargo volume," Fitch said. "The rating is further supported by the port's substantial, long-term contractual minimum annual guarantees (MAGs) with both cruise and cargo operators, which have historically helped to insulate port revenues from volume and passenger volatility."

Moody's Investors Service has assigned an A3 rating with a stable outlook to the bonds.

"PortMiami's A3 seaport revenue refunding bonds rating reflects the port's position as the largest cruise port in the world with competitive cargo operations," Moody's said.

Royal Caribbean Group is one of the biggest cruise companies in the world and has a fleet of 64 ships traveling to around 1,000 destinations. It owns and operates Royal Caribbean International, Celebrity Cruises and Silversea Cruises and is a 50% owner of a joint venture that operates TUI Cruises and Hapag-Lloyd Cruises.

In November, PortMiami and RCG entered into agreements for construction of the campus as well as for redeveloping Cruise Terminal G and passenger guarantees at Berth-10. These were approved by the [Board of County Commissioners](#).

The campus lease agreement with RCG was amended to let the county finance RCG's improvements. As part of the agreement, RCG's annual lease payments will rise by 125% of the project financing costs, up to \$44 million, over a 30-year period.

The new Cruise Terminal G agreement will allow the construction of Cruise Terminal G and development of Berth 10, which is expected to be debt-funded and capped at \$325 million.

Royal Caribbean will utilize shore power as part of its deal in the new terminal.

All the major cruise lines, including Royal Caribbean, agreed in 2021 to [bring shore power to cruise ships in PortMiami](#), according to RCG.

Shore power lets cruise ships hook up to electricity at the port so their engines don't need to operate while the ship is letting passengers off the ship and bringing new ones onboard. This eliminates the air pollution fumes that would have been emitted if fuel was being used.

"PortMiami's unrestricted funds remain substantial, providing sufficient liquidity to cover debt service payments and support operations in the near term," Fitch said. "Leverage metrics are expected to remain elevated under the Fitch rating case

due to the substantial capital plan that calls for sizable borrowings in the near- to medium-term but are projected to stabilize at a level in line with the A category following the completion of major capital projects."

Cruise activity has ramped up significantly in 2022 and 2023, with many cruise lines operating at or over 100% occupancy in recent months.

Through July 14, PortMiami served more than 6 million passengers this fiscal year, which began Oct. 1. In fiscal 2022, about 4 million passengers sailed out of PortMiami, compared to 6.8 million in fiscal 2019.

PortMiami's cruise-related revenues in fiscal 2022 recovered to over 95% of pre-pandemic levels.

"Based on the port's financial models and existing preferential agreements, management expects continued growth in cruise activity and related revenues and anticipates passenger volumes of approximately 6.8 million in fiscal 2023," Fitch said. "Longer-term, the port anticipates cruise passenger moves to increase to approximately 9.4 million by fiscal 2028, based on cruise contract obligations and continued capital investments."

Moody's noted that market fundamentals remain solid with strong cruise demand supporting a recovery in cruise passengers.

"The strength of the recovery is quite remarkable after the shutdown of cruise operations during most of the COVID-19 pandemic," Moody's said. "Credit metrics will continue to benefit from temporarily lower debt service in fiscal 2023 and 2024 following the 2021 and 2022 refundings."

PortMiami anticipates additional capital investments given strong demand from the cruise lines.

The port's current capital improvement program totals roughly \$2.1 billion through fiscal 2033. Major ongoing projects include cargo yard-related improvements and the construction of additional cruise terminals.

Fitch expects CIP funding to come from future borrowing, grants, customer investment and existing funds.

Taking on a lot of new debt in support of these projects may negatively affect the credit profile, Fitch said.

"However, projects can be reviewed and resized as needed and management reports that not all projects are currently contractually obligated," Fitch said.

"Additional debt issuance will be contingent upon new contracts and consequent growth in MAGs."

Fitch said that PortMiami's most comparable "Fitch-rated peer is Canaveral Port Authority (A-minus/positive outlook), another Florida East Coast port that serves a similar market and competes with Miami for cargo and cruise business. PortMiami has a large cargo presence, and as such, less exposure to a single business line than Canaveral. However, PortMiami has higher leverage as it progresses through its CIP."

Moody's said the credit positives are balanced against the port's large CIP. In total, PortMiami will spend around \$750 million on these two projects for Royal Caribbean.

Moody's noted that liquidity was solid, with the port having about \$260 million of unrestricted cash reserves based on unaudited results as of March 31. On Sept. 30, 2022, PortMiami had around \$205 million unrestricted cash reserves, which is about 789 days cash on hand, or 16.5% of debt.

Since 2012, the county has sold about \$2.4 billion of bonds for the port, with the most issuance occurring in 2021 when it offered \$1.24 billion.

[That sale](#), which was priced by Wells Fargo Securities, won The Bond Buyer's [Deal of the Year](#) award. The financing was the largest port transaction to come to market in the country since the start of the COVID-19 pandemic and the high demand for the bonds highlighted investor confidence in the seaport sector.

The county last sold bonds for the port in January, when Raymond James priced \$534.81 million of seaport revenue refunding bonds consisting of \$522 million of Series 2022A bonds subject to the alternative minimum tax and \$12.81 million Series 2022B non-AMT bonds.

The AMT bonds were priced to yield from 2.90% with a 5% coupon in 2025 to 4.20% with a 5% coupon in 2042; term bonds in 2047 yielded 4.33% with a 5% coupon and 4.38% with a 5.25% coupon. The non-AMT bonds were priced as a bullet 2037 maturity to yield 3.41% with a 5% coupon.

With this summer's transaction, PortMiami will have around \$2.3 billion in outstanding debt.

County residents and officials alike want to keep the port under its local home rule.

In November, voters approved a [charter amendment](#) by an almost four-to-one margin which will require voter approval if the County Commissioners want to

transfer ownership or governing authority of PortMiami, the Miami International Airport or the Miami-Dade Expressway Authority to the state for any reason.