

THE BOND BUYER

Bonds are a Backup Plan for Texas Port's Ship Channel

By

Richard Williamson

Published

August 31 2018, 11:28am EDT

DALLAS – The Port of Brownsville, Texas, may use revenue bonds to finance dredging operations to accommodate larger vessels but is keeping the option in reserve for now, officials said.

“Revenue bonds are on the table only as a means of last resort,” said Steve Tyndal, senior director of marketing and business development at the port.

The Port of Brownsville wants to deepen its ship channel to 52 feet from the current 42 feet to accommodate larger vessels.

Like other ports around the nation, Brownsville -- managed by the Brownsville Navigation District -- wants to deepen its 17-mile ship channel to 52 feet from its current 42 feet to handle the larger ships coming through the expanded Panama Canal and deeper-draft tankers carrying U.S. energy exports. But like the other ports, Brownsville must wait for federal funding and the U.S. Army Corps of Engineers before the \$200 million project can begin.

“The cost is challenging, especially for an emerging port like Brownsville,” said BND board secretary Sergio Tito Lopez.

The larger Port of Corpus Christi, 150 miles up the Gulf Coast, is issuing its own bonds to finance the dredging in anticipation of eventual federal funding. In March, the commission that governs the nation’s fourth-largest port by tonnage voted to issue up to \$400 million of bonds to dredge the Corpus Christi Ship Channel. The port has been seeking the promised federal funds for 28 years.

Dredged to 54 feet from the current 45 feet and widened to 530 feet to allow two-way traffic flows, Corpus Christi will have the deepest draft navigation port on the U.S. Gulf Coast and a significant advantage over the depth-limited Port of Houston. The expansion is needed for growing export volumes of U.S. crude oil and natural gas, which have made Corpus Christi the largest energy export port in the U.S. by volume.

According to a National Oceanic and Atmospheric Administration study released last year, a single additional inch of draft allows a bulk grain ship to move 179 more tons of cargo, valued at an additional \$30,000. A ship carrying tractors could move 36 more tractors valued at \$2.4 million with just one more inch of draft.

Like Corpus Christi, Brownsville, ranked 67th in the nation in cargo volume, is developing as an energy export hub with rapid deployment of pipelines from the booming Eagle Ford Shale play of South Texas and plans for three liquefied natural gas export facilities.

An American Association of Port Authorities survey in 2016 found that Texas ports and their private-sector partners planned to invest \$48 billion on capital improvements over five years.

The Army Corps of Engineers estimates the cost of deepening the Brownsville channel by an additional 10 feet would be \$200 million, with \$60 million more needed to improve port infrastructure.

While Congress has authorized the ship channel to be deepened to 52 feet, it has not provided the funding.

The navigation district has dismissed the idea of using general obligation bonds for the project, but the idea of revenue bonds has earned board support. After backing the bonds, the companies that use the port would be reimbursed once federal funds were received.

“As we move through the final permitting efforts, which by the way are daunting, we are on a parallel path to secure funding and begin the project as soon as possible,” Lopez said in a “State of the Port” address in March.

“How soon? It’s difficult to predict, but it’s much closer at hand with a higher probability of success than we previously imagined,” Lopez said. “Project commencement could be within a five-year event horizon, or sooner.”

Although the Port of Brownsville is supported by property tax levies, Commissioner Ralph Cowen said that he did not want to encumber the generally low-income citizens of his city when the major beneficiaries would be wealthy tenants of the port.

Nationally, ports have identified \$155 billion in planned capital improvements from 2016-2020, according to AAPA. Six navigation channel deepening projects are underway, the most in over a decade.

“There were justified complaints on the length of time it took the Corps to complete navigation channel improvement studies,” said Jim Walker, director of navigation policy and infrastructure for the AAPA. “This led Congress in 2014 to pass legislation requiring these studies be completed within three years. The first of these studies are now being completed and initial results have been very positive.”

For Brownsville, which lies on the border with Mexico, the issue is not just exports from the United States but imports for Mexico.

“The Port of Brownsville is a trans-shipment port, meaning about 95% of everything we move is bound for Mexico,” Tyndal said. “We also receive significant imports from Mexico: sugar, limestone, fuel oil, scrap metal, chemicals, etc.”

Like many cities and crossing points on the border, Brownsville was concerned that President Trump’s threat to scrap the North American Free Trade Agreement could hurt business and revenue. The recently announced agreement between the U.S. and Mexico eases the pressure somewhat, though details about the deal are yet to be revealed. Texas political leaders remain concerned that Canada has been left out of an agreement that previously included all three countries

“We have become an integrated economic unit: Mexico, Canada and the United States,” said U.S. Sen. John Cornyn, R-Texas. “Excluding Canada would be self-inflicted harm, and I hope we are able to get this done.”

Texas exports about \$7 billion of crude petroleum, plastics and fuel annually to Canada, the state’s second-largest trading partner after Mexico.

One alternative to dredging, at least for the energy industry, is offshore loading stations.

Global commodities trading firm Trafigura Group announced in August that it plans to build the Texas Gulf Terminals Project in the Gulf of Mexico, off the coast of Corpus Christi. An offshore terminal would avoid port traffic and float in waters deep enough to handle the largest tanker ships known as “Very Large Crude Carriers,” or VLCCs, fully loaded. Trafigura’s plans come after Houston energy company Enterprise Products Partners announced a plan to build an even larger offshore oil exporting terminal south of Galveston.

The plans were announced as Texas ports began exporting more energy products than they imported.

The U.S. Energy Information Agency said that the surge in U.S. oil exports came so quickly that the Gulf Coast’s onshore ports were struggling to ensure space for VLCCs.

“The inability to fully load larger and more cost-effective vessels has pricing implications for U.S. crude oil exports,” EIA said. “Using a number of smaller ships requires a wider price spread between U.S. crude oil and international crude oil prices to compensate for the lower economies of scale and costs associated with reverse lightering and partial loadings.”

The Louisiana Offshore Oil Port is the only U.S. facility able to accommodate a fully loaded VLCC, according to EIA.

As Texas ramps up its exports of energy products, incoming Mexican President Andrés Manuel López Obrador is vowing to halt imports of gasoline and diesel from the United States by 2021.

Lopez Obrador made the promise after a 20% hike in pump prices led to mass protests in Mexico. To reduce reliance on U.S. production would require major investment in Mexico's Pemex state-owned petroleum company.

"Refineries will be built, gas extraction will be promoted, and the electric industry will be strengthened," López Obrador said before his election Nov. 1. "All this to stop buying gasoline and other fuels abroad."

Mexico relies on U.S. refineries, with more than half of the gasoline the United States exported in 2017 going to the neighboring nation, according to the EIA.

The value of U.S. energy exports to Mexico increased to a high of \$25.8 billion in 2017, including \$23.2 billion of petroleum products, according to the EIA. Overall, the export value was more than twice as much as the \$11.1 billion value of 2017 U.S. energy imports from Mexico. Energy accounted for more than 10% of the value for all U.S. exports to Mexico and 4% of all U.S. imports from Mexico in 2017.

Although much of the U.S. natural gas exports traveled through pipelines, liquefied natural gas shipments came from a new port facility at the Sabine Pass on the border of Louisiana and Texas.

In addition to petroleum products, Brownsville has a burgeoning steel industry built around ship salvaging operations. Big River Steel, a steel producer with headquarters in Arkansas, is in the due diligence phase of developing a steel mill on the ship channel.

The port also handles steel from Europe and other locations bound for Mexico. The port is connected by rail to its sister city of Matamoros, Mexico.

In 2014, the port entered a 30-year agreement with OmniTrax Inc. and its parent company, the BROE Group, to develop an industrial park within the district and operate a rail line under a franchise agreement. As part of the agreement, the BND retired its 2003 junior-lien railroad revenue bonds. The railroad has subsequently been renamed the Brownsville & Rio Grande Railway. Under the agreement, the railway prepaid five years of nonrefundable franchisee payments,.

The BND has about \$40 million in senior lien revenue debt outstanding and about \$8.2 million of general obligation bonds, according to Moody's Investors Service, which rated the district A2 when it issued \$27.5 million of revenue bonds in 2016.

S&P Global Ratings rates the district A with a stable outlook.