Fitch Ratings

Fitch Affirms Hillsborough Co. Aviation Auth's Sr. Airport Revs at 'AA-' & Sub Revs at 'A+'

Fitch Ratings-New York-27 September 2019: Fitch Ratings has affirmed Tampa International Airport's outstanding senior airport revenue bonds at 'AA-' and the outstanding airport subordinated revenue refunding bonds at 'A+'. The Rating Outlook for all bonds is Stable.

KEY RATING DRIVERS

Summary: The ratings reflect the airport's strong origin and destination (O&D) position in the Tampa regional market benefitting from expanding air services. The airport benefits from stable overall coverage (above 2x in 2018) and a currently low cost per enplanement (CPE) in the $5 range, which could see upward pressures as the authority's sizable capital program moves forward with some additional borrowing expected. Leverage is still expected to remain at levels consistent with the rating level and similarly rated peers.

Large Market, Some Volatility - Revenue Risk (Volume): Stronger
The airport's sizable O&D market, comprised of approximately 92% of 10.5 million enplanements in 2018, is supported by a strong and growing local traffic base. Enplanements have increased steadily in recent years with a five-year CAGR of 4.4% through 2018, and 10-month fiscal 2019 year-to-date demonstrates continued growth at 5.3%. The airport continues to face limited competition from nearby Florida airports; however, steady growth in the service area and the airport's carrier diversity serve to offset this concern.

Solid Cost Recovery Framework - Revenue Risk (Price): Stronger
The airport's current hybrid airline use and lease agreement (AUL) extends to 2020 and, together with non-airline receipts and PFCs, provide additional stable cash flows to meet airport operating and debt costs. PFCs provide support for the subordinate lien debt service, while senior lien debt service is covered through airport revenues. The current CPE remains comparatively low for a large-hub airport in the $5 range thanks to robust non-airline revenue performance, and is expected to remain low relative to peers through the forecast period. Fitch views favorably the airport's extraordinary coverage provisions, which allow the airport to levy additional charges to airlines in the event that net revenues are insufficient to meet debt service covenants. The framework also provides for revenue sharing with airlines based on surplus net revenue generation.

Partially Debt Funded CIP - Infrastructure Development/Renewal: Midrange
The airport's Master Plan CIP consists of three phases to reduce traffic congestion, prepare the existing terminal for future growth, and to expand the main terminal. The $982 million Phase 1 program was completed in March 2019. The airport is now on Phase 2, which will enable the final

phase. Phase two projects are expected to total $544 million and are currently on time and on budget.

Conservative Debt Structure - Debt Structure: Stronger (Senior), Midrange (Sub)
Nearly all of the airport's debt is issued in fixed-rate mode. Following expected borrowings in 2020, 2022, and 2024, annual debt service increases through 2031 before levelling off. Structural features and covenants are standard for a strong airport credit, including cash funded debt service reserves.

Financial Profile
The airport's 2018 net debt-to-cash flow available for debt service (CFADS) of 3.5x is comparatively low, and liquidity levels have improved to $154.4 million, representing 436 days cash on hand. While a successor airline agreement will be very influential to rate setting and the operating revenue projectivity in conjunction with the upcoming capital, overall leverage is expected to rise to the 8x-9x range under Fitch's rating case. The airport's debt service coverage ratio (DSCR) has improved in recent years at 2.1x for both senior and all-in coverage in fiscal 2018, and averages through 2028 remain at 1.9x/1.7x (senior/all-in) in Fitch's conservative rating case.

PEER GROUP
The airport's peers include other Florida airports with similar market characteristics, such as Greater Orlando Aviation Authority (rated AA-/A+/Positive Outlook) and Broward County Fort Lauderdale (rated A+/Outlook Stable), with GOAA's rating reflecting a strong liquidity position and recently enacted airline use and lease agreement will provide for strong cost recovery terms for the airport's expanded facilities.

RATING SENSITIVITIES

Developments That May, Individually or Collectively, Lead to Positive Rating Action:
--Positive rating action in the near term is unlikely given the airport's expected leverage range in conjunction with the capital program.

Developments That May, Individually or Collectively, Lead to Negative Rating Action:
--Increase in sustained overall leverage to the 10x to support the capital program.

CREDIT UPDATE

Performance Update

The airport, located approximately five miles west of the City of Tampa's central business district, has seen recovery in enplanement levels after experiencing moderate declines through the most recent recession. Enplanements have shown average growth of 4.4% over the past five years, rising 9.1% in 2018 to 10.5 million. For the first 10 months of fiscal 2019 through July, enplanements are up a further 5.3%, reflecting growing service offerings and overall activity levels at the airport.

Operating revenues have continued to show resilient growth, up 10.6% in 2018, with a five-year CAGR of 5.3%. Projected 2019 operating revenues are up 13.0% over the same period in 2018.

Costs have been increasing at the airport, with growth in the last five years averaging 8.5%. 2018 saw a larger increase of 16.5% (though remained 0.3% under budget), driven primarily by the opening of the rental car center and APM, and personnel costs from adding additional positions. Expenses for 2019 are projected to be up 8.2% over 2018; however, remaining 0.8% under budget.

The airport's 2012 master plan update includes three phases and totals $2.5 billion. The 2012 plan includes improvements to the existing main terminal building, which will allow the facility to accommodate up to 34.7 million passengers through 2041. The plan also delays construction of a future north terminal facility, which was previously anticipated to be needed once the airport passenger volume reached 25 million in the 2005 master plan.

Phase 1 of the airport's master plan was completed in March 2019. Phase 2 projects are underway and largely serve to enable the final phase. Major projects consist of a garage demolition, curb and roadway expansion, central energy plant work, relocation of authority offices, and taxiway works. Estimated project costs total $544 million, with works expected to be completed by fiscal 2023. Management has indicated that all projects are currently on time and on budget. Phase 3 includes the construction of a new Airside D as well as a new APM guideway connecting the new airside with the Main Terminal complex.

Fitch Cases

Fitch established base and rating cases for this review taking into account the authority will continue to utilize a cost recovery framework with air carriers in conjunction with the capital program. Once rate setting terms are effectuated under a successor AUL, the financial outputs for these cases could be modified from current methodologies although Fitch believes the authority intends to preserve its currently sound fiscal position.

Fitch's base case assumes annual enplanement growth of approximately 1.9% per year, coupled with annual revenue growth averaging 4.5% and operating expenses of 5.3%. Fitch has also assumed additional borrowings of $186.1 million in 2020 (senior) and $673 in 2022 (senior and sub), and $95.7 million in 2024 for Phases 2 and 3 of the Airport's Master Plan. With these assumptions, the authority is expected to generate DSCRs in line with historical levels of 1.6x-2.4x, averaging 2.1x (minimum of 1.8x) for the senior bonds and 1.8x (minimum of 1.6x) for senior and subordinate bonds. These projections are comparable to forecasts in past reviews, though leverage is slightly higher due to the inclusion of all Phase 2 borrowings. Leverage peaks at 8.4x all-in, and falls to 6.7x by 2028.

Fitch's more conservative rating case assumes modest 1.9% enplanement growth in 2020 followed by a 9.8% recessionary drop in enplanements in 2021, followed by 1% growth in 2022. This is followed by six years of recovery for an average enplanement growth rate of 1% for 2018-2028. DSCRs average 1.9x (minimum of 1.7x) for the senior bonds and 1.7x (minimum of 1.6x) for senior and subordinate bonds. Leverage peaks at 10.9x in 2022 but ends the forecast period at 8.0x. CPE remains below $10 in both cases.

Security

Senior revenue bonds issued by the authority are payable solely from airport revenues derived from the operation of the airport system (Tampa and three general aviation airports) after the payment of operation and maintenance expenses. Available PFC revenues are included in the definition of revenues and eligible PFC-project bonds are paid from a first lien on available PFC revenues with a back-up pledge of airport net revenues. Pledged PFCs are limited to 125% of PFC-eligible debt service. No PFC supported senior bonds are currently outstanding.

Subordinate revenue bonds are payable from airport system net operating revenues after payment of operating expenses and senior lien debt service. Remaining PFCs after application for senior lien debt service are available to pay PFC eligible debt service on the sub lien.

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Additional information is available on www.fitchratings.com
Applicable Criteria
Airports Rating Criteria (pub. 23 Feb 2018)
Rating Criteria for Infrastructure and Project Finance (pub. 27 Jul 2018)

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