FitchRatings

RATING ACTION COMMENTARY

Fitch Upgrades Tampa Apt Sub to 'AA-'; Assigns Snr 2024; Affirms Parity Bonds; Outlook Stable

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Fitch Ratings - New York - 30 Jul 2024: Fitch Ratings has upgraded Hillsborough County Aviation Authority (HCAA), FL's $443.7 million outstanding subordinate lien airport revenue bonds (issued on behalf of Tampa International Airport [TPA]) to 'AA-' from 'A+'. Fitch has also assigned a 'AA-' rating to approximately $545 million in senior lien airport revenue series 2024B bonds. Fitch has additionally affirmed the parity bonds at 'AA-'. The Rating Outlook on both the senior lien and the subordinate lien bonds is Stable.

RATING RATIONALE

The upgrade reflects Fitch's expectations for TPA to demonstrate a strengthened credit profile benefitting from the continued positive enplanement trends and well-positioned financial performance, with metrics steadily outperforming Fitch's base case expectations. TPA's enplanements are solidly surpassing pre-pandemic levels and the current $3.5 billion capital program is well underway. Even with future borrowings required to fund such projects, HCAA's forward-looking leverage levels on an aggregate basis are commensurate with the 'AA' category for both lien levels. Fitch's rating case leverage (including capitalized interest from the 2024 issuance) averages below 6x while average aggregate debt service coverage remains above 1.60x through 2030.

The ratings reflect the airport's strong origin and destination (O&D) position in the expanding Tampa and Central Florida market, a favorable cost recovery framework with carriers, competitive costs per enplanement (CPE), and moderate leverage profile even through the peak of the capital program period.

KEY RATING DRIVERS

Revenue Risk - Volume - Stronger

Large Market, Some Volatility: TPA serves a sizeable and growing market in Florida, with O&D enplanements exceeding 11 million annually anchored by the expansion of the local traffic base and the addition of its favorable levels of leisure traffic. While some degree of volatility to traffic volumes exists, Fitch notes that TPA has made a full level recovery from the pandemic period and nonstop destinations are growing both domestically and internationally.

TPA also enjoys a high degree of airline diversity, including legacy, low cost, and ultra-low-cost carriers. The airport faces some limited competition from nearby Florida airports, but strong growth in the air trade service area offsets this concern. Fitch views CPE as relatively low for a large-hub airport, and expects CPE to remain competitive relative to Florida peers as the capital improvement plan (CIP) progresses.

Revenue Risk - Price - Stronger

Strong Cost Recovery Framework: Fitch views TPA's ratemaking framework as a credit strength, with its rates by resolution approach providing for near full cost recovery. In recent years, this agreement has yielded significantly higher airline revenues, bolstering the airport's financial profile and providing greater internal funding capacity to progress with its master plan. Management intends to maintain this rate setting framework over the course of the ongoing capital program.

Infrastructure Dev. & Renewal - Midrange

Partially Debt Funded CIP: The airport's master plan, the backbone to the overall medium-term capital program, consists of three phases to reduce traffic congestion, prepare the existing terminal for future growth, and construct a new airside terminal building. The airport is nearing completion of phase two (expected in 2025), which will enable the final phase to progress.

The most recently updated capital plan identifies projects through 2030 totaling $3.5 billion and are anticipated to be supported by an additional approximately $1.8 billion of senior general airport revenue bonds (GARBs) and around $130 million of subordinate bonds. The authority maintains strong internal fund balances and has the ability to use federal grants and PFC collections for portions of the funded costs.

Debt Structure - 1 - Stronger; Debt Structure - 2 - Midrange

Conservative Debt Structure: All of the airport's senior and subordinate lien debt is fixed-rate and fully amortizing. Approximately 33% of outstanding GARB debt is on the subordinate lien. Including expected borrowings after 2024, debt service obligations increase through the early 2030s before levelling off. Structural features and covenants are standard for a strong airport credit, including coverage tests for rates and additional bonds as well as establishing debt service reserve accounts.

Financial Profile

TPA's metrics are currently well positioned evidenced by its low leverage for a large hub airport at 3.2x, but is expected to increase moderately due to planned future additional debt issuances. Liquidity levels remain sound with days cash on hand above the management target of 600. Debt service coverage ratio (DSCR) increased to a very healthy 4.3x and 3.3x for senior and total debt, respectively in fiscal 2023 benefiting from increasing passenger enplanements which drives growth in most sources of non-airline revenues coupled with the use of remaining federal grant awards.

With additions to debt levels over the next several years, these levels are expected to narrow but remain strong. Maintaining elevated DSCRs is essential for management's ability to retain its cash funds to allow for larger internal funding of its ongoing capital programs. Under the Fitch rating case, total DSCR remains over 1.6x through 2030 while total leverage (including capitalized interest from the 2024 issuance) peaks at 6.6x in 2028.

PEER GROUP

The airport's rated peers include other large hub, leisure-based Florida airports with similar market characteristics, such as Greater Orlando Aviation Authority (GOAA; AA-/A+/Positive) and Broward County Fort Lauderdale (FLL; A+/Stable). GOAA's similar rating reflects a significantly larger enplanement base and stronger liquidity position offset by greater capital needs. FLL's lower rating reflects a larger service area that is more than offset by a higher leverage position.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--Measurable increase in leverage resulting in sustained all-in leverage above 7.0x;

--Higher traffic volatility or a trend of persistent traffic reductions negatively affecting cashflows and credit metrics compared to current expectations.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Positive rating action is unlikely for both the senior and subordinate liens given the expectations of stable leverage over time and Fitch's view of TPA's franchise strength relative to the existing 'AA' category rating.

TRANSACTION SUMMARY

The authority plans on issuing approximately $545 million in fixed rate, senior lien airport revenue bonds with amortization through 2054. This debt issuance will focus on projects such as airside D development and is part of the larger capital program with future financings expected in 2026 and beyond.

In addition to funds to cover upcoming project costs, the series 2024B bond proceeds will also fund capitalized interest of approximately $90 million through 2027, the additional debt service reserve requirement and other costs of issuance. In July 2024, the authority also issued series 2024A senior bonds (not rated by Fitch) in order to refinance 2015A senior obligations in order to pull forward the maturity repayments and still recognize some debt service savings.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING	PRIOR

Hillsborough County Aviation Authority (FL) [Airport]				
Hillsborough County Aviation Authority (FL) /Airport Revenues - First Lien/1 LT	LT	AA- Rating Outlook Stable	Affirmed	AA- Rating Outlook Stable
Hillsborough County Aviation Authority (FL) /Airport Revenues - Second Lien/2 LT	LT	AA- Rating Outlook Stable	Upgrade	A+ Rating Outlook Positive

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Infrastructure & Project Finance Rating Criteria (pub. 17 May 2023) (including rating assumption sensitivity)

Transportation Infrastructure Rating Criteria (pub. 18 Dec 2023) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

GIG AST Model, v1.4.2 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Hillsborough County Aviation Authority (FL)	EU Endorsed, UK Endorsed

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