

Hillsborough County Aviation Authority (Tampa International Airport) Customer Facility Charge Revenue Bonds

Issuer: Hillsborough County Aviation Authority, FL

Affirmed	Rating	Outlook
Tampa International Airport Customer Facility Charge Revenue Bonds	A+	Stable

Rating Summary: The long-term rating for the Hillsborough County Aviation Authority (Authority) Tampa International Airport (TPA or the Airport) Customer Facilities Charge Revenue Bonds (Bonds) reflects the Airport’s growing and diversifying economic base, featuring a significant leisure/recreation component that supports high rental car utilization. Favorable bondholder security derives from a legal framework that includes a conservative rate covenant, and the ability to charge concessionaires deficiency payments as a joint and several obligation in the event of revenue insufficiency. Ample reserves in the form of surplus and repair/replacement funds, and a cash funded debt service reserve fund (DSRF) at maximum annual debt service (MADS), are further additive and represent safeguards to a relatively narrow revenue stream that can be sensitive to exogenous events.

Methodology:

- [U.S. Special Tax Revenue Bond Rating Methodology](#)
- [ESG Global Rating Methodology](#)

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Pledged revenues securing the Bonds include (i) on-airport customer facilities charge (CFC) receipts, (ii) transportation facility charge (TFC) receipts, and (iii) concessionaire deficiency payments, which are made by concessionaires (rental car companies) pursuant to their respective concessionaire agreements as contingent payments to cover deficiencies, if any, in the amount of

CFCs/TFCs needed to fund mandatory eligible costs. The current CFC rate is \$5.95 per transaction day, and the current TFC rate is \$2.00 per transaction day. CFCs are an accepted industry practice, and while management has no current plans for rate adjustments, KBRA believes future increases are unlikely to have a measurable impact on car rental activity. TFC revenues typically account for less than 1% of annual pledged revenues.

Pledged revenues were negatively impacted by the pandemic-induced decline in airport activity, declining to a level 33.9% below the pre-pandemic level in FY 2020 before recovering to a level down 33.4% in FY 2021, down 14.4% in FY 2022 and down 8.4% in FY 2023. The recovery has been slower than that of Airport enplanement activity, which was 4.3% above the pre-pandemic high in FY 2023. Recovery is continuing with management projecting a recovery in pledged revenues to a level 4.8% below the pre-pandemic high in FY 2024 and 2.9% below the prior high in FY 2025. Reduced rental car fleet sizes in the years immediately following the pandemic were a factor in the slower recovery in rental car activity relative to Airport passenger enplanement activity, though management reports that this factor has abated over the last several years. KBRA believes that the evolving mix of leisure and business activity at the Airport as well as growing use of transportation network companies (TNCs, or rideshare) may be a factor in the slower recovery in rental car activity and CFC receipts relative to overall airport activity. KBRA continues to view the Tampa MSA as an attractive leisure/recreation destination. Besides the numerous beaches, the MSA includes Busch Gardens-Tampa Bay, a variety of cultural institutions, a cruise ship port, and Ybor City, Tampa’s Latin Quarter.

Pledged revenues provided debt service coverage of 1.57x (excluding rolling coverage) and 1.82x (including rolling coverage) in FY 2023. These levels exceeded FY 2022 coverage of 1.46x (excluding rolling coverage) and 1.71x (including rolling coverage). A pandemic-related decline in receipts in FY 2020 and FY 2021 did necessitate the application of \$8.58 million from the deficiency reserve fund which was required to be funded under the CFC Trust Agreement with an initial one-time deposit of \$10 million around the time of the 2018 completion of the consolidated rental car facility that was funded with the CFC bonds. A balance of \$1.7 million remains in the deficiency reserve fund as of FYE 2023 and the CFC Trust Agreement does not require or provide for any mechanism of replenishment. Annual debt service requirements are level at around \$26.2 million through final maturity in FY 2044 and no additional CFC borrowing is planned.

While pledged revenues are narrowly defined and subject to demand risk, the legal framework includes certain safeguards against revenue shortfalls. These include: i) a gross lien dedicated revenue pledge; ii) a rate covenant equal to 1.50x annual debt service coverage (including up to 0.25x rolling coverage from amounts in a CFC surplus account) and 1.25x coverage from transaction revenues; iii) step-up provisions requiring non-defaulted concessionaires to cover



the deficiency payment requirement of a concessionaire that is in default under the Concessionaire Agreement; iv) a fully funded debt service reserve fund (DSRF); v) additional reserves in the form of the surplus, repair and replacement, and deficiency, which while not pledged to the Bonds, contain \$47 million as of FYE 2023; and, vi) an additional bonds test that provides effective constraint against overleveraging. In addition, the Authority maintains full rate-setting autonomy.

The Stable Outlook reflects the resilience and growth of the Tampa Bay economy and the Airport's air travel demand and recovery, which KBRA expects will continue to support rental car demand at TPA, as well as the Bonds' level annual debt service levels and the absence of additional borrowing plans.

Key Credit Considerations

The rating was affirmed because of the following key credit considerations:

Credit Positives

- Legal framework provides strong bondholder protections and features a 1.25x rate covenant (excluding rolling coverage), ability to adjust the CFC, and established reserves.
- The Tampa Bay area is an established and popular leisure/recreation destination that supports high levels of rental car utilization.
- Passenger activity at TPA has rebounded well from the sharp reductions recorded during the COVID-19 period.

Credit Challenges

- Sizable leisure/recreation component represents vulnerability to economic downturns, as evidenced by sharp enplanement and rental car transaction declines during the COVID-19 pandemic.
- Competitive market for leisure/recreation destinations and potential for shifts in consumer preferences may reduce demand for rental cars.
- Competition from rideshare services may weigh negatively on CFC revenue growth going forward.

Rating Sensitivities

- Trend of steady growth in rental car transactions resulting in sustained increase in pledged revenues. **+**
- Erosion in rental car market and rental car transactions pressuring debt service coverage. **-**

Credit Highlights

FYE September 30 (dollars thousands)

		2019	2020	2021	2022	2023
Enplanements		11,085,290	6,681,053	7,717,164	10,688,831	11,560,792
Δ YOY		5.4%	-39.7%	15.5%	38.5%	8.2%
CFC/TFC Collections	a	\$ 44,731	\$ 30,628	\$ 28,989	\$ 38,009	\$ 40,742
CFC/TFC Surplus Fund Balance Applicable to Coverage Requirement	b	6,650	6,650	6,650	6,650	6,650
Application of CFC Deficiency Reserve Fund Balance	c	-	2,619	5,958	-	-
CFC Interest Income	d	1,067	1,422	685	759	901
Concessionaire Deficiency Payments	e	-	-	-	-	-
Annual Debt Service	f	26,600	26,598	26,600	26,598	26,600
Coverage (Excluding Rolling Coverage)	(a+c+d+e) / f	1.72x	1.30x	1.34x	1.46x	1.57x
Coverage (Including Rolling Coverage)	(a+b+c+d+e) / f	1.97x	1.55x	1.59x	1.71x	1.82x



Rating Determinants (RD)	
1. Legal Framework	AA
2. Nature of Special Tax Revenues	A+
3. Economic Base and Demographics	AA-
4. Revenue Analysis	A
5. Coverage and Bond Structure	A

A detailed discussion of each rating determinant can be found in prior KBRA reports, the most [recent](#) of which is dated August 17, 2023.

Bankruptcy Assessment

KBRA has consulted outside counsel on bankruptcy matters and the following represents our understanding of the material bankruptcy issues relating to the Authority and the Bonds.

Bankruptcy Eligibility

To be a debtor under the municipal bankruptcy provisions of the U.S. Bankruptcy Code (Chapter 9), a local governmental entity must, among other things (a) qualify under the definition of “municipality” in the Bankruptcy Code, and (b) be specifically authorized to file a bankruptcy petition by the state in which it is located.

The Authority meets the definition of municipality as it is a public body, corporate and politic and an independent special district of Florida.

As to authorization, Florida law generally permits municipal entities to seek federal bankruptcy relief, but this authority is limited by a separate companion statute that prohibits certain local governmental entities (defined to include special districts like the Authority) from seeking such relief except with the prior approval of the governor. Accordingly, KBRA believes that a bankruptcy court reviewing any Chapter 9 filing by the Authority would require, among other conditions to eligibility, that the Authority has received prior permission from Florida’s governor. In addition, Florida law can be amended generally, or a specific bill can be passed to permit a municipality, such as the Authority, to seek Chapter 9 relief.

A. Pledged Revenues as Special Revenues under the Bankruptcy Code

Chapter 9 provides for post-petition recognition of (a) security interests represented by a pledge of specific special tax revenues or of enterprise revenues (referred to as a lien on “special revenues”) and (b) statutory liens (one imposed by statute) on revenues pledged for government obligations. Such special revenues and statutory liens should both continue to apply to pledged revenues acquired by a local government entity during a Chapter 9 case and survive the conclusion of the Chapter 9 proceeding. However, other consensual pledges and liens arising by indenture, resolution or similar document (except to the extent they cover proceeds of collateral pledged prior to bankruptcy) are generally all cut off by Section 552 of the Bankruptcy Code as of the petition date. Notably, the recent decision issued by the First Circuit Court of Appeals in Puerto Rico Electric Power Authority (“PREPA”) affirmed the protections afforded to bondholders’ liens with respect to pledged special revenues.

Because the Pledged Revenues pledged for payment of the CFC Bonds are generated by revenue from the Airport’s car rental concessions, as part of the aviation transportation projects and systems owned by the Authority, KBRA understands that the Pledged Revenues should qualify as “special revenues” as that term is defined in the Bankruptcy Code.

There are separate protections in Chapter 9 for revenue bonds that fall within those special revenues definitions. If the Authority were authorized to file for protection under Chapter 9 and assuming there is no shortfall of funds to make debt service after continuing operating expenses are paid, it should generally be expected that such filing should have little to no effect on the payment of the CFC Bonds during the bankruptcy case given that the Bonds should be considered revenue bonds secured by a pledge of special revenues.

That stated, there are several additional issues that arise. If the Authority were to become a debtor in a proceeding under Chapter 9 of the Bankruptcy Code, a bankruptcy court could decide that (a) post-bankruptcy revenue bond payments by the Authority are merely optional and not mandatory under the special revenues provisions of the Bankruptcy Code and/or (b) the automatic stay exception for special revenues in those provisions does not apply (including to possible enforcement action by the Trustee) or is limited to amounts then on hand with the Trustee or the Authority. If the bankruptcy court were to interpret the Bankruptcy Code in that (or a similar) fashion, the parties to the proceedings may be prohibited for an unpredictable amount of time from taking any action to collect any amount from the Authority, or from enforcing any obligation of the Authority, without the bankruptcy court’s permission. However, it is KBRA’s understanding that such a ruling would be contrary to historical experience in Chapter 9, and the



clear intent of Congress regarding the continued payment of municipal revenue bonds post-bankruptcy, as expressed in the legislative history for the special revenues amendments to Chapter 9 and as interpreted in properly-reasoned existing (albeit limited) case precedent under Chapter 9.

Assuming the revenues pledged are in fact determined to be “special revenues,” the Bankruptcy Code provides that, to keep revenue-generating municipal assets operating, special revenues can be applied to necessary operating expenses of the project or system ahead of all other obligations – including bondholder payments. This rule applies regardless of contrary provisions of the transaction documents, if such governing documents do not adequately provide for payment of necessary operating expenses.

In a Chapter 9 case, a bankruptcy court determining necessary operating expenses for the ConRAC and APM Project may not be limited by the provisions defining construction or operational expenses, or otherwise governing the flow of funds, in the Trust Agreement or other bond issuance documents. In addition, while there is no case law from which to make a definitive judgment, it is possible that, in the context of confirming a plan of adjustment in a Chapter 9 case where the plan has not received the requisite consent of the holders of the CFC Bonds, a bankruptcy court may confirm a plan that adjusts the timing of payments on the CFC Bonds or the interest rate or other terms of the CFC Bonds, provided that (a) the bondholders retain their lien on the special revenues and (b) the payment stream has a present value equal to the value of the special revenues subject to the lien.

B. Possible Effect of a Concessionaire Bankruptcy

In the event a bankruptcy case is filed with respect to a Concessionaire operating at TPA, it is KBRA’s understanding that the relevant Concession Agreement should constitute an executory contract or unexpired lease pursuant to the United States Bankruptcy Code. In Chapter 11 cases, the debtor in possession or a trustee, if one is appointed, has 120 days from the date of filing of the bankruptcy petition to decide whether to keep (“assume”) or jettison (“reject”) a nonresidential lease, such as the Concession Agreement; this 120-day period may be extended by court order for an additional 90 days for cause. Any additional extensions are prohibited unless the debtor Concessionaire or its trustee obtains the Authority’s consent and a court order.

Under the Bankruptcy Code, KBRA understands that if a bankruptcy trustee or the Concessionaire as debtor-in-possession were to elect to reject an executory contract or unexpired lease of non-residential real property, the rejection is deemed to be a default immediately before the date of the filing of the bankruptcy petition. Under the Bankruptcy Code, upon rejection of an unexpired lease the Concessionaire debtor must surrender the subject non-residential real property to the lessor. As a result, rejection of an unexpired lease by a Concessionaire debtor may result in the Authority unexpectedly regaining control of the applicable Concessionaire facilities. The Authority could then lease or permit such facilities to other car rental companies. The Authority’s ability to lease such facilities to other car rental companies may of course depend on the state of the travel industry in general, on the nature and extent of the increased capacity at TPA resulting from the departure of the debtor Concessionaire, and on the need for such facilities.

Under the Bankruptcy Code, any rejection of a lease or other agreement could also result in a claim by the Authority for rejection damages against the debtor Concessionaire. Such claim would be in addition to all pre-bankruptcy amounts owed by the debtor Concessionaire. With respect to leases, a rejection damages claim for the rent due under a lease is capped under the Bankruptcy Code at the greater of one year or 15% (not to exceed three years), of the remaining term of the lease. Rejection damages claims should generally be treated as a general unsecured claim of the Concessionaire debtor, and could be considerably less than the cap. However, the Authority may have rights against any faithful performance bond or letter of credit required of a Concessionaire to secure its obligations under the Concession Agreement and/or the right to set off against credits owed to the Concessionaire under relevant agreements. Alternatively, under the Bankruptcy Code a Concessionaire debtor can “assume” its executory contracts and unexpired leases. The Bankruptcy Code further provides for a Concessionaire debtor to assume and assign its executory contracts and leases to a third party, subject to certain conditions. If the bankruptcy trustee or the Concessionaire assumes its executory contracts or unexpired leases as part of reorganization, the Concessionaire debtor must “cure” or provide adequate assurance that the Concessionaire debtor will promptly cure its prepetition defaults, including arrearages in amounts owed. Even if all such amounts owed are eventually paid, KBRA believes the Authority could experience significant delays of many months or years in collecting them.

ESG Management

KBRA typically analyzes Environmental, Social, and Governance (ESG) factors through the lens of how issuers plan for and manage relevant ESG risks and opportunities. More information on KBRA’s approach to ESG risk management in public finance ratings can be found [here](#). Over the medium-term, public finance issuers will likely need to prioritize ESG risk management and disclosure with the likelihood of expansions in ESG-related regulation and rising investor focus on ESG issues.

KBRA analyzes many sector- and issuer-specific ESG issues but our analysis is often anchored around three core topics: climate change, with particular focus on greenhouse gas emissions; stakeholder preferences; and cybersecurity. Under



environmental, as the effects of climate change evolve and become more severe, issuers are increasingly facing an emerging array of challenges and potential opportunities that can influence financial assets, operations, and capital planning. Under social, the effects of stakeholder preferences on ESG issues can impact the demand for an issuer's product and services, the strength of its global reputation and branding, its relationship with employees, consumers, regulators, and lawmakers, and, importantly, its cost of and access to capital. Under governance, as issuers continue to become more reliant on technology, cybersecurity planning and information management are necessary for most issuers, regardless of size and industry.



Environmental Factors

The Authority in 2013 completed its first Sustainable Management Plan that utilized public and stakeholder input to set the pace for the Airport to pursue sustainability initiatives. Since this time, the Airport has completed updates of the plan in 2017, 2019, and 2023 and has executed a number of initiatives that have resulted in significant reductions in water and electricity usage and waste reduction. Project plans for every major airport capital project have a checklist for sustainability opportunities which has enable innovative sustainability solutions for things like LED lighting, water savings restroom fixtures, construction material recycling and energy management. The latest 2023 update is intended to guide the next 10 years of sustainability and resiliency management. It includes a newly articulated vision and mission, modified goals and targets, enhanced assessment of cost benefits and sustainability commitments, new and updated tools and processes for management, including methods of integration into existing Airport System operating processes, procurement, project management, measurement and verification, reporting and communications.



Social Factors

The Authority has prioritized inclusion and diversity through its Business Diversity programs. The Authority's goal is to spend \$77.7 million of the \$583.3 million Phase 2 Master Plan budget with women and minority owned businesses through 2025. The Authority is close to meeting this goal, having paid out \$76.2 million to such businesses through September 2023. Additionally, the Authority has paid \$16.7 million to women and minority owned business through September 2023 relating to other CIP projects.



Governance Factors

Cybersecurity: The Authority provides information technology infrastructure utilized by air travel industry partners including airlines, the FAA, the TSA, the Authority, concessionaires and others that collect and store sensitive data critical to operation of the airport. The Authority takes steps to secure infrastructure from hacking exploits, breaches, and service disruptions, but recognizes that the cyber risk landscape is rapidly changing and therefore maintains a range of cyber risk insurance coverage.

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