

RATING ACTION COMMENTARY

Fitch Revises Hillsborough Co. Aviation Auth's Sub Lien Outlook to Positive; Affirms Sr & Sub Bonds

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Fitch Ratings - Austin - 20 Nov 2023: Fitch Ratings has affirmed the 'AA-' rating on Hillsborough County Aviation Authority (HCAA, or the authority), FL's \$882 million of outstanding senior lien airport revenue bonds and the 'A+' rating on approximately \$447 million in outstanding subordinate lien airport revenue bonds issued on behalf of Tampa International Airport (TPA, or the airport). The subordinate lien Rating Outlook has been revised to Positive from Stable. The senior lien Rating Outlook is Stable.

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/1 LT | LT A+ Rating Outlook Positive Affirmed | A+ Rating Outlook Stable |

RATING RATIONALE

The Positive Outlook on the subordinate lien reflects TPA's continued positive enplanement trends and financial performance, with metrics outperforming Fitch's base case expectations and enplanements having surpassed pre-pandemic levels. The current \$2.2 billion capital program is well underway and HCAA's forward-looking leverage is commensurate with the 'AA' category for both lien levels when including additional borrowing to support the current capital plan. Further clarity on future borrowing needs within the next one-to-two years coupled with stabilized total leverage below 7x could lead to an upgrade to 'AA-' for the subordinate lien.

The Rating Outlook for the senior bonds remains Stable reflecting Fitch's view of the airport's overall franchise strength relative to the 'AA' category rating.

The ratings reflect the airport's strong origin and destination (O&D) position in the Tampa and Central Florida market, providing stability through business cycles and robust recovery from pandemic-related declines. Tampa International Airport benefits from a strong cost recovery framework with carriers, providing for stable all-in coverage (above 2x in Fitch's rating case), competitive cost per enplanement (CPE), and a robust leverage profile. The ratings also reflect the potential for an expanded capital plan following the completion of the master plan update and phase 3 airside D addition.

KEY RATING DRIVERS

Revenue Risk - Volume - Stronger

Large Market, Some Volatility: TPA serves a sizeable and growing market in Florida, with O&D enplanements anchoring the local traffic base. While a high level of leisure traffic introduces a degree of volatility to traffic volumes, Fitch notes this segment has served as an area of strength during the pandemic recovery. The airport offers a broad range of service, including some international traffic, and benefits from 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 service area offsets this concern. Fitch views CPE as 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. The current agreement has yielded significantly higher airline revenues, bolstering the airport's financial profile and providing capacity to progress with its master plan. The resolution, in effect since FY2021, does not have an expiration date and HCAA indicates they have no immediate plans to modify the framework.

Infrastructure Dev. & Renewal - Midrange

Partially Debt Funded CIP: The airport's master plan, the largest component of its CIP, consists of three phases to reduce traffic congestion, prepare the existing terminal for future growth, and construct a new terminal building. The airport is nearing completion of phase two (expected in 2025), which will enable the final phase. Capital projects (including master plan phases two and three) through 2028 total \$2.2 billion and are anticipated to be supported by an additional approximately \$500 million-\$560 million of senior general airport revenue bonds (GARBs) and around \$130 million of subordinate bonds. Fitch notes an update to the master plan is expected in 2024, which may result in an increase in the CIP scope.

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

Conservative Debt Structure: All of the airport's rated debt is fixed-rate and fully amortizing. Approximately 33% of outstanding GARB debt is on the subordinate lien. Including expected borrowings in 2024 and 2026, debt service obligations increase through the early 2030s before levelling off. Structural features and covenants are standard for a strong airport credit, including cash funded debt service reserves.

Financial Profile

TPA's 2023 net debt-to-cash flow available for debt service is low for a large hub airport at 3.3x, but is expected to increase modestly due to planned future additional debt issuances. Liquidity levels remain sound with Fitch-calculated days cash on hand (DCOH) above 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, outperforming prior year base case expectations. These levels are expected to fall slightly in Fitch's rating case, but remain strong. Maintaining high DSCRs is essential for management's ability to cash fund large portions of its ongoing capital programs. All-in DSCRs average 2.3x under the Fitch rating case, and leverage remains at or below 5.4x when including potential future borrowings through 2026, reaching 4.5x 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 and FLL's reflects a larger service area 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 9.0x.

--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

--Continuation of positive growth in traffic volumes coupled with total leverage below 7.0x on a sustained basis, including future borrowing needs would likely lead to an upgrade to 'AA-' for the subordinate lien.

--Positive rating action is unlikely at present for the senior lien given Fitch's view of TPA's franchise strength relative to the existing 'AA' category rating.

CREDIT UPDATE

TPA has experienced a strong recovery since the pandemic, reflecting the resilience of its service area and the overall return of domestic leisure and international travel.

Enplanements recovered to 104.3% of 2019 levels during fiscal 2023, in-line with Fitch's prior year base case expectations.

TPA's financial metrics have outperformed Fitch base case expectations in both 2023 and 2022. Revenues surpassed base case expectations by 26% and 17%, respectively, leading to DSCRs of 3.6x/2.9x (senior/total) in FY2022 and 4.3x/3.3x in FY2023. The outperformance in metrics is attributable in part to a surge in non-airline revenues, especially parking, given TPA's strong enplanement recovery and passenger spend. Metrics are also more favorable relative to historical levels as a result of increased airline revenues under the authority's rates by resolution structure adopted in fiscal 2021.

TPA drew its remaining federal relief funds during 2023. The authority has been allocated \$110 million in federal infrastructure funding through FY2025. The authority plans to use the additional funding for airside D, through the \$5 billion terminal development portion of the federal infrastructure program.

Phase two of the master plan is currently on time and largely in line with the budget, with major project components completed. The final project of phase two is expected to substantially complete in 2025. Phase three of the master plan was shifted back by approximately two years as a result of the pandemic. Phase three is focused on the build out of the Airside D terminal expansion, for which the Design Builder was selected in 2023, with planned completion by YE 2027. The airport consultant is nearing completion of the 2022 master plan update and HCAA anticipates a finished product by 1Q24 at which point TPA will begin a business plan, including a financing plan, for the recommended projects.

FINANCIAL ANALYSIS

Fitch's base case assumes moderate enplanement growth at an average rate of 2.5% through fiscal 2028. Fitch has adopted management's budget for 2024 O&M expense growth of 9.8%, with more normalized growth of 3.5% per annum thereafter. Passenger revenues move largely with annual enplanement changes and airline revenues reflect cost recovery under the rates by resolution structure.

In both the base and rating case, Fitch incorporates the airport's anticipated 2024 and 2026 issuances into the debt profile and management's forward guidance for available funds for operations, assuming cash levels revert back to HCAA target DCOH of 600 in 2024-onward given the authority's capital plans and other uses.

Under the base case scenario, senior DSCR averages 2.9x over from 2024 to 2028 and total coverage averages 2.4x. Leverage increases slightly in fiscals 2024 and 2026 as a result of future planned issuances, but reduces to 3.2x/4.1x (senior/total) by 2028. CPE increases gradually to around \$12, reflecting the rates by resolution structure and additional debt.

Fitch's rating case assumes a one-year recessionary contraction to enplanements of -7% in 2024, followed by a two-year recovery, and 2% growth annually thereafter. Fitch assumes management acts to curtail costs in FY2024 given the enplanement loss, reducing O&M expense growth to 1.5% (versus 9.8% in the base case). O&M is then stressed at 50-150bps above the base case each year thereafter. Airline and non-airline revenues follow the same methodology as in the base case. In this scenario, total revenue grows at a CAGR of about 2.9% from 2023 to 2028, while O&M expenses grow at a CAGR of 3.9%.

Senior DSCR, when counting PFCs as revenues, averages 2.8x and total coverage averages 2.3x over 2024-2028. Leverage peaks at 5.4x with the additional issuances, but falls to 3.4x/4.5x (senior/total) by 2028. CPE is around \$1 higher by 2028, but remains competitive relative to large hub airports with sizeable capital programs and to Florida leisure peers.

Fitch notes that forward metrics are consistent with 'AA' category ratings for both liens, and further clarity on future borrowing needs within the next one-to-two years coupled with stabilized total leverage below 7x could lead to an upgrade of the subordinate lien to 'AA-!'.

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>.

FITCH RATINGS ANALYSTS

Jeffrey Lack

Senior Director

Primary Rating Analyst

+1 312 368 3171

jeffrey.lack@fitchratings.com

Fitch Ratings, Inc.

2600 Via Fortuna, Suite 330 Austin, TX 78746

Seth Lehman

Senior Director

Secondary Rating Analyst

+1 212 908 0755

seth.lehman@fitchratings.com

Emma Griffith

Senior Director

Committee Chairperson

+1 212 908 9124

emma.griffith@fitchratings.com

MEDIA CONTACTS**Sandro Scenga**

New York

+1 212 908 0278

sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

[Transportation Infrastructure Rating Criteria \(pub. 16 May 2022\) \(including rating assumption sensitivity\)](#)

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

APPLICABLE MODELS

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

GIG AST Model, v1.3.1 (1)

ADDITIONAL DISCLOSURES

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