S&P Global Ratings

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Summary:

Hillsborough County Aviation Authority, Florida Tampa International Airport; Non-Recourse Proj, Single or Multi Tenants, Entert

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Long Term Rating	A/Stable	Upgraded
Hillsborough Cnty Aviation Auth (Tampa Intl Arpt) non-recourse		
Long Term Rating	A/Stable	Upgraded

Credit Highlights

- S&P Global Ratings raised its long-term rating to 'A' from 'A-' on the Hillsborough County Aviation Authority (HCAA), Fla.'s customer facility charge (CFC) revenue bonds issued for Tampa International Airport (TPA).
- The outlook is stable.
- The rating action reflects our view of the TPA's consolidated rental car facility's (CONRAC) sustained recovery in rental car activity and demonstrated return to business-as-usual market conditions, with transaction days and CFC revenue for the second quarter of 2022 at approximately 90% of 2019 pre-pandemic levels, which we expect will produce financial metrics consistent with a strong financial risk profile.

Security

As of Sept. 30, 2022, TPA will have approximately $348 million in CFC debt outstanding. A $5.95-per-day rental car CFC for cars rented at the airport secures the bonds. The bond proceeds financed an airport rental car facility that rental car companies operating on TPA's premises use. In addition, the bond proceeds partly funded a 1.4-mile automatic people mover. The CONRAC has a cash-funded debt service reserve that provides additional security for bondholders totaling approximately $28.3 million.

Credit overview

The rating action reflects our opinion of the CONRAC facility's strong enterprise risk and financial risk profiles and a demonstrated return to business-as-usual market conditions, reflected by the sustained recovery in rental car activity over the past year despite COVID-19 variants and rising fuel prices. CFC revenue for the nine months through June 2022 are in line with the budget, and we expect this to support a return to pre-pandemic financial metrics.

Key credit strengths, in our opinion, include the CONRAC's:

- Favorable service area economic fundamentals in the Tampa metro area, which will support robust air travel demand given good economic activity as measured by GDP per capita, a large population base, above-average expected population growth, and ample employment opportunities;

- Historically strong coverage (above 1.25x) and very strong debt capacity supported by a lack of additional debt plans; and
- Experienced, proactive, and effective management team.

Key credit weaknesses, in our opinion, are:

- The CONRAC's single-asset exposure with a narrow revenue stream tied to a subset of arriving passengers that rent vehicles at TPA; and
- Pledged revenues that are sensitive to changes in the business and leisure travel segments.

Environmental, social, and governance

We analyzed TPA's risks and opportunities related to environmental, social, and governance credit factors relative to its market position, management and governance, and financial performance. Elevated health and safety risks, which we consider a social risk factor, are abating, as is reflected in TPA's activity recovery, but we still believe this sector has moderately negative risk exposure, given the substantial impact on airports at the onset of the COVID-19 pandemic. We also view physical risks as moderately negative in our credit rating analysis given the airport's location along Florida's Gulf Coast, which makes it more susceptible to weather events and the effects of climate change. We consider governance credit factors neutral in our credit rating analysis.

Outlook

The stable outlook reflects our expectation that rental car activity will be sustained or continue to improve and normalize, allowing the CONRAC to maintain financial metrics, per our calculations, that are consistent with a strong financial risk profile.

Downside scenario

We could lower the rating if rental car activity declines materially or if we come to expect financial metrics will be sustained at levels consistent with a lower rating.

Upside scenario

We do not expect to raise the rating in the two-year outlook period because we believe the facility's market position, although strong, is unlikely to improve significantly, primarily given the cyclicality of demand. However, if coverage increases to a very strong level on a sustained basis, we could raise the rating.

Credit Opinion

S&P Global Ratings believes that momentum will likely protect the U.S. economy from recession in 2022. But with supply chain disruptions worsening as extremely high prices damage purchasing power and as aggressive Federal Reserve policy increases borrowing costs, economic effects are likely in 2023. Our U.S. GDP growth forecasts are 2.4% for 2022 and 1.6% for 2023 (compared with 2.4% and 2.0%, respectively, in May 2022), and while our baseline signals a low-growth recession we believe the likelihood of a contraction or technical recession is rising, to 40% (35%-45% band). The wider band reflects increased uncertainty over the Russia-Ukraine conflict. Supply chain disruptions, worsened by that conflict and the China slowdown, remain the largest stumbling block for the U.S. economy. As inflation expectations become more entrenched, extreme price pressures will likely last well into 2023. We expect the unemployment rate, at 3.6% in May and slightly in excess of the pre-pandemic level, will remain near that rate until early 2023 before surpassing 4.3% by the end of 2023 and 5.0% by the end of 2025 as the economy slows. The Federal Reserve is now likely to push rates to 300 basis points by year end from zero at the beginning of the year and reach 3.50% to 3.75% by mid-2023. The Fed will keep monetary policy tight until inflation decelerates and nears its target in second-quarter 2024. We expect the Fed to start to cut rates in third-quarter 2024. Our lower GDP and inflation forecasts for 2023 and 2024 reflect this more aggressive policy stance. (See "Economic Outlook U.S. Q3 2022: The Summer Of Our Discontent," published June 27, 2022, on RatingsDirect.)

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022