

FITCH UPGRADES HILLSBOROUGH COUNTY'S TAMPA INT'L AIRPORT BONDS TO 'AA-/'A+'; OUTLOOK STABLE

Fitch Ratings-New York-10 August 2016: Fitch Ratings has upgraded the \$412 million in outstanding senior airport revenue bonds issued on behalf of Tampa International Airport (the airport) by the Hillsborough County Aviation Authority (the authority) to 'AA-' from 'A+'. Fitch has also upgraded the \$316 million in outstanding airport subordinated revenue refunding bonds to 'A+' from 'A'. The Rating Outlook for all bonds is revised to Stable from Positive.

The upgrade reflects the continued improvement of financial metrics as the airport progresses with its capital improvement program, with strong enplanement performance supporting a favorable financial profile. Furthermore, future master plan elements have been modified to reflect more modest future borrowing, furthering Fitch's expectation that coverage and leverage metrics will remain steady to improving in the future.

The ratings reflect the airport's strong origin and destination (O&D) position in the Tampa and Central Florida market, providing stability through the recent downturn. The airport benefits from stable overall coverage in the 1.7x range and a reasonable cost per enplanement (CPE) in the \$5 range, which are expected to continue going forward. While a sizable capital program is underway with some additional borrowing expected, leverage is expected to remain at moderate levels consistent with the proposed rating. The airport compares favorably with other Florida airport peers, including Greater Orlando Aviation Authority (rated 'AA-/'A+', Outlook Stable) and Broward County Fort Lauderdale (rated 'A'/ Outlook Positive).

KEY RATING DRIVERS

Revenue Risk Volume: Stronger

Large Traffic Base with Some Volatility: The airport's sizable O&D market, comprising 88% of 9.3 million enplanements in 2015, is underpinned by a strong local traffic base. Enplanements recovered relatively slowly in the first few years post economic downturn; however, the rate of traffic recovery has accelerated in recent years with fiscal 2015 enplanement increases of 6.8% and 2016 year-to-date of 3.6% demonstrating continued, robust growth. While the airport faces limited competition from nearby Florida airports, the vigorous recovery of its service area as well as the airport's carrier diversity offset this concern.

Revenue Risk Price: Stronger (from Midrange)

Cost Recovery Key to Borrowing: The airport's current use and lease agreement with airlines extends to 2020, and covers roughly one third of airport operating costs. Still, the revenue generation from non-airline receipts and PFCs provide a strong overall cash flow generation versus total airport operating and debt costs. PFCs provide support for the subordinate lien debt service, while senior lien debt service is covered through airport revenues. Sizable non-airline revenues help maintain a low airline CPE for a large-hub airport in the \$5 range, even as the CIP progresses. The airport benefits from extraordinary coverage protection, allowing it to levy additional charges to airlines in the event that net revenues are insufficient to meet debt service covenants while also providing for a revenue sharing mechanism based on surplus net revenue generation.

Infrastructure and Renewal: Midrange

Capital Plan Partially Debt Funded: With the deferral of the north terminal development project, the airport's Master Plan CIP consists of a three phase plan to reduce traffic congestion, prepare the existing terminal for future growth, and to expand the main terminal. Phase 1 is underway and fully

funded at \$953 million, will 71% of funding coming from GARB, PFC, and CFC debt already issued in 2015. The remaining funding is expected to come from state and federal grants (21%) as well as authority funds and paygo CFCs. Phase 2 and 3 of the Master Plan are dependent upon the authority meeting certain international operations triggers, not likely within the next five years. Management indicates the Master Plan is currently under review with scope and cost of Phases 2 and 3 expected to be reduced from earlier estimates of up to \$1.6 billion.

Debt Structure: Stronger (Senior); Midrange (Sub)

Conservative Debt Structure: Nearly all of the airport's debt is issued in fixed rate mode. Currently, 39% of outstanding GARB debt is on the subordinate lien. Debt amortization is favorable with declining annual debt service payments expected over the next five to ten years. Structural features and covenants are standard for a strong airport credit, including cash funded debt service reserves.

Robust Finances: The airport's 2015 net debt-to-cash flow available for debt service (CFADS) of 4.7x is comparatively low, and liquidity levels have improved to over \$130 million, representing over 400 days cash on hand. Leverage is expected remain in the 3.5x - 4.5x range due to borrowing associated with the CIP. The airport's debt service coverage ratio (DSCR) has risen to above pre-recession levels at 1.89x/1.73x for senior/all-in coverage in fiscal 2015, and averages improve to 1.89x/1.78x range (senior/all-in) in Fitch's conservative rating case. For HCAA, maintaining high DSCRs is key to retaining the ability to cash fund large portions of its ongoing capital programs.

Peers: The airport's peers include other Florida airports with similar market characteristics, such as Greater Orlando Aviation Authority (rated 'AA-'/'A+', Outlook Stable) and Broward County Fort Lauderdale (rated 'A'/Positive Outlook), with GOAA's rating reflecting a strong liquidity position and moderate leverage that may rise with its CIP.

Fact Tool: U.S. Airports

[FACT Tool: U.S. Airports](https://www.fitchratings.com/site/fitch-home/re/876822.html) (Opens in an Excel worksheet)

RATING SENSITIVITIES

Positive: Given the airport's current and expected leverage and coverage metrics, coupled with its traffic profile, further positive adjustment is viewed as unlikely in the near to medium term.

Negative: A measurable increase in leverage above current plans to support the capital program could negatively affect ratings.

Negative: A higher degree of traffic volatility or a trend of persistent traffic reductions may impact cashflows and credit metrics compared to current expectations, and result in a rating downgrade.

SUMMARY OF CREDIT

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 recent recession (3.5% annual declines in the 2007 - 2010 period followed by 0.6% - 0.7% growth annually through 2013). Enplanements have since shown more rapid improvement, rising 6.8% to 9.3 million in 2015. For the first nine months of fiscal 2016 through June, enplanements are up a further 3.6%, reflecting increased service and stronger overall activity levels at the airport. New services from Frontier, Spirit, United and Westjet have been announced for 2017, which may lead to further passenger growth.

Operating revenues have continued to show resilient growth, with 3% - 7% revenue growth in the 2011 - 2014 period and a further 5.5% increase for fiscal 2015. For the first six months of fiscal 2016 through March, revenues are up 4.0% over a year prior, in-line with budget expectations. Over the past five years, operating revenues have grown at an average of 5.1%.

Operating expenses have been well controlled, with 5.0% growth in 2015 mirroring revenue trends, and the five year growth rate of 3.8% tracking slightly above inflation. Year to date through March 2016, expenses are 2% lower than budgeted. CPE remains extremely competitive for a large hub airport at \$5.26 in 2015, and is expected to increase only modestly in coming years. Coverage, as measured by DSCR, fell during the recession (low of 1.38x in fiscal 2010), but has historically ranged from 1.6x - 1.9x. The last two years have seen coverage at or above historical levels, with senior/all-in DSCR in 2015 reaching 1.89x and 1.73x respectively, above prior year's projections. Leverage as measured by net debt/CFADS is moderate at 4.7x on an all-in basis, and is expected to hold at these levels as the authority progresses with its CIP.

Management's forecasts of 2.1% annual enplanement growth through 2021 coupled with annual revenue growth averaging 3.4% and operating expenses of 5.7% are viewed as reasonable, and Fitch has adopted these assumptions for its base case. In addition to existing debt, Fitch has also assumed roughly \$100 million in additional debt for the airport's Phase 2 master plan in 2020. With these assumptions, the authority is expected to generate DSCRs above current levels, in the range of 2.0x to 2.4x for the senior bonds and 1.8x to 2.1x for senior and subordinate bonds. These projections are better than anticipated at the time of the 2015 review. Under Fitch's rating case, which contemplates an 8% recessionary drop in enplanements followed by three years of recovery for an average enplanement growth rate of 0.7%, DSCRs remain in the range of 1.7x to 2.4x for the senior bonds and 1.5x to 2.0x for senior and subordinate bonds. These levels are consistent with the rating level even as the authority proceeds with capital improvements.

The authority has undertaken considerable borrowing in the context of its master plan-driven CIP, with Phase 1 fully funded and progressing on-schedule towards completion in 2018. Phase 1 is estimated at \$953 million, with the largest projects being the design and construction of a consolidated rental car facility (CONRAC) and APM system connecting the terminal to parking, rental car facilities, and regional transportation networks. The CONRAC project was funded via standalone CFC bonds in 2015, with \$318 million in GARB and PFC-backed debt issued in 2015 funding other Phase 1 improvements. Due to favorable market conditions, the debt service on the 2015 bonds came in lower than forecast, lowering the authority's debt burden. The airport also received a \$194 million FDOT grant for several Phase 1 projects, further reducing borrowing requirements on the GARB credit. Phase 2 and 3 of the Master Plan are currently being reviewed, with the scope and cost of these projects expected to be greatly reduced from original estimates of roughly \$1.6 billion. With existing borrowings, senior debt service maintained at the \$50 million level, and the inclusion of roughly \$100 million in additional borrowing in 2020, Fitch expects all-in net debt to CFADS will remain in the 3.5x - 4.5x range, comparing favorably with current levels of 4.7x.

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.

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.

Contact:

Primary Analyst
Emma Griffith
Director
+1-212-908-9124
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Secondary Analyst
Seth Lehman
Senior Director
+1-212-908-0755

Committee Chairperson
Bernardo Costa
Senior Director
+55-11 4504 2607

Media Relations: Sandro Scenga, New York, Tel: +1 212-908-0278, Email:
sandro.scenga@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria

Rating Criteria for Airports (pub. 25 Feb 2016)

https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=877676

Rating Criteria for Infrastructure and Project Finance (pub. 08 Jul 2016)

https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=882594

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2016 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports,

Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided “as is” without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001