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

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:
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