FITCH RATES HILLSBOROUGH CO. AVIATION AUTH'S 2018 E&F SR. AIRPORT REVS 'AA-' & 2018 A SUB REVS 'A+'

Fitch Ratings-Chicago-03 October 2018: Fitch Ratings has assigned the following ratings to bonds issued on behalf of Tampa International Airport (the airport) by the Hillsborough County Aviation Authority (the authority):

--Approximately $297.7 million series 2018 E and F senior airport revenue bonds 'AA-';
--$104.6 million series 2018A subordinate airport revenue bonds 'A+'.

In addition, Fitch has affirmed the airport's outstanding senior airport revenue bonds at 'AA-' and the outstanding airport subordinated revenue refunding bonds at 'A+'. The Rating Outlook for all bonds is Stable.

KEY RATING DRIVERS
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. The airport benefits from stable overall coverage (above 2x in 2017) 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 levels consistent with the rating level and with area peers.

Large Market, Some Volatility - Revenue Risk (Volume): Stronger
The airport's sizable O&D market, comprising approximately 95% of 9.6 million enplanements in 2017, is supported by a strong and growing local traffic base. Enplanements have increased steadily in recent years with a five-year CAGR of 2.7% through 2017, and 10 month fiscal 2018 year-to-date demonstrates continued growth at 8.4%. The airport continues to face limited competition from nearby Florida airports; however, steady growth in the service area and the airport's carrier diversity serve to offset this concern.

Strong Cost Recovery Framework - Revenue Risk (Price): Stronger
The airport's current hybrid use and lease agreement with airlines extends to 2020 and covers roughly one third of airport operating costs. Revenue generation from non-airline receipts and PFCs provide additional stable cash flows to meet airport operating and debt costs. PFCs provide support for the subordinate lien debt service, while senior lien debt service is covered through airport revenues. The CPE remains comparatively low for a large-hub airport in the $5 range thanks to robust non-airline revenue performance, and is expected to remain low relative to peers through the forecast period. Fitch views favorably the airport's extraordinary coverage provisions, which allow the airport to levy additional charges to airlines in the event that net revenues are insufficient to meet debt service covenants. The framework also provides for revenue sharing with airlines based on surplus net revenue generation.

Partially Debt Funded CIP - Infrastructure Development/Renewal: Midrange
The airport's Master Plan CIP consists of three phases to reduce traffic congestion, prepare the existing terminal for future growth, and to expand the main terminal. The $982 million Phase 1 program is scheduled for completion in early 2019. The airport is now embarking on Phase 2, which will enable the final phase. Projects are expected to total $544 million and will be funded primarily with revenue bonds (81%) and PFC-backed bonds (18%), with the remainder coming from PFC pay-go funds, authority funds, and grants.

Conservative Debt Structure - Debt Structure: Stronger (Senior), Midrange (Sub)

Nearly all of the airport's debt is issued in fixed-rate mode. Currently, with the new issuance of the 2018 bonds, 36% of outstanding GARB debt is on the subordinate lien. Following the issuance of the 2018 bonds and the expected borrowings in 2020 and 2024, debt amortization increases through 2032 before levelling off. Structural features and covenants are standard for a strong airport credit, including cash funded debt service reserves.

Financial Profile
The airport's 2017 net debt-to-cash flow available for debt service (CFADS) of 4x is comparatively low, and liquidity levels have improved to $139.4 million, representing 434 days cash on hand. All-in leverage is expected to rise to the 7x range in the next five years under Fitch's rating case due to borrowing associated with Phase 2 of the master plan, though the profile declines thereafter to 5.8x in 2028. The airport's debt service coverage ratio (DSCR) has risen to above pre-recession levels at 2.2x/2.1x for senior/all-in coverage in fiscal 2017, and averages through 2028 remain at 1.8x/1.7x (senior/all-in) in Fitch's conservative rating case. For the authority, maintaining high DSCRs is key to retaining the ability to cash fund large portions of its ongoing capital programs.

PEER GROUP
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+'/Outlook Stable), with GOAA's rating reflecting a strong liquidity position and moderate leverage that will rise with its CIP.

RATING SENSITIVITIES
Future Developments that May, Individually or Collectively, Lead to Negative Rating Action:
--Measurable increase in leverage above current plans to support the capital program, resulting in sustained senior lien leverage above 8x or all-in leverage above 10x.
--Higher traffic volatility or a trend of persistent traffic reductions negatively affecting cashflows and credit metrics compared to current expectations.

Future Developments that May, Individually or Collectively, Lead to Positive Rating Action:
--Positive rating action is unlikely given current rating levels coupled with the airport's expected leverage and coverage metrics as well as overall traffic profile.

TRANSACTION SUMMARY
The authority expects to issue approximately $297.7 million of series 2018 E and F senior airport system revenue bonds in October 2018. The airport also expects to issue an additional $104.6 million of series 2018 A subordinate airport system revenue bonds. The majority of the senior GARBs will be used to fund master plan items, including total south terminal support area (STSA) site development and authority facilities; main terminal curbside expansion; and energy plant and loading dock replacement, among others. The series 2018A subordinate PFC bonds will be used to help fund various master plan items, as well as to fund general capital improvement plan items such as the checked baggage system upgrades, among others. The bonds are expected to price the week of Oct. 22.

CREDIT UPDATE
Performance Update

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 most recent recession. Enplanements have shown average growth of 2.7% over the past five years, rising 1.6% in 2017 to 9.6 million. For the first 10 months of fiscal 2018 through July, enplanements are up a further 8.5%, reflecting growing service offerings and overall activity levels at the airport.

Operating revenues have continued to show resilient growth, up 1.3% in 2017, with a five-year CAGR of 3.9%. Nine-month year to date 2018 operating revenues are up 10.1% over the same period in 2017, and 4.7% above budget.

Costs have been well managed at the airport, with growth in the last five years averaging 5.9%. 2016 saw a larger increase of 10.4%, driven primarily by filling vacant positions leading to higher salaries; increases in pensions and benefits; and increases in various contracted services and maintenance. 2017 saw an additional 4.5% rise in expenses. For the first nine months of fiscal 2018 (October through June), expenses are up 8.1% over the same period in 2017; however, year to date expenses remain 4% under budget. Projected fiscal 2018 expenses are up 9.1% over 2017, though remain 0.2% below budget.

The airport's 2012 master plan update includes three phases and totals $2.5 billion. The 2012 plan includes improvements to the existing main terminal building which will allow the facility to accommodate up to 34.7 million passengers through 2041. The plan also delays construction of a future north terminal facility, which was previously anticipated to be needed once the airport passenger volume reached 25 million in the 2005 master plan.

Phase 1 of the airport's master plan is nearly complete. For the projects still left to be completed, the main terminal expansion and concessions redevelopment is set to be complete in October 2018, and the reclaiming of floors 1&2 of the long term parking garage is scheduled for completion in January 2019. Phase 2 projects will largely serve to enable the final phase, with major projects consisting of a garage demolition, curb and roadway expansion, central energy plant work, relocation of authority offices, and taxiway works. Estimated project costs total $544 million, with works expected to be completed by fiscal 2023. The new series 2018 issuances are to fund phase 2, with additional phase 2 funding provided by the planned issuance in 2020. Phase 3 includes the construction of a new Airside D as well as a new APM guideway connecting the new airside with the Main Terminal complex. The authority does not yet have a set construction timeline or final cost estimate for Airside D, though timing and sizing are expected to be better understood at the time of the upcoming 2020 issuance.

Fitch Cases

Management forecasts a 2017-2028 CAGR of 2.6% annual enplanement growth through 2028. This level of traffic growth, coupled with annual revenue growth averaging 4.8% and operating expense growth of 5.8%, is viewed as reasonable, and Fitch has adopted these assumptions for its base case. In addition to the issuance of senior and subordinate bonds in 2018, Fitch has also assumed additional borrowings of $337 million in 2020 for Phase 2 of the airport's master plan and $213 million in 2024 for the airport's capital improvement program, in line with management's guidance. With these assumptions, the authority is expected to generate DSCRs in line with historical levels of 1.6x-2.4x, averaging 2.0x (minimum of 1.9x) for the senior bonds and 1.9x (minimum of 1.8x) for senior and subordinate bonds. These projections are comparable to forecasts in past reviews, though leverage is slightly higher due to the inclusion of all Phase 2 borrowings. Leverage peaks at 7.1x all-in in 2020, and falls to 5.1x by 2028.

Fitch's more conservative rating case contemplates a 5% recessionary drop in enplanements in 2020 with a further 2% drop in 2021, followed by seven years of recovery for an average enplanement growth rate of 1.5% for the 2017-2028 period. In this case, DSCRs average 1.8x (minimum of 1.7x) for the senior bonds and 1.7x (minimum of 1.5x) for senior and subordinate bonds. Leverage peaks at 7.3x in 2022 but ends the forecast period at 5.8x. CPE remains below $10 in both cases. Despite slightly higher leverage levels in the rating case, metrics remain consistent with the rating level even as the authority proceeds with capital improvements. Metrics compare favorably with peer facilities that are also undergoing sizable capital programs in the next five to seven years.

Asset Description
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. No PFC supported senior bonds are currently outstanding.

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.

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Applicable Criteria
Airports Rating Criteria (pub. 23 Feb 2018)
https://www.fitchratings.com/site/re/10021613
Rating Criteria for Infrastructure and Project Finance (pub. 27 Jul 2018)
https://www.fitchratings.com/site/re/10038532