

# Hillsborough County Aviation Authority Tampa International Airport

**Revenue Bonds, 2015 Series A (AMT)**

**Subordinated Revenue Bonds, 2015 Series A (AMT)**

**Subordinated Revenue Bonds, 2015 Series B (Non-AMT)**

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## Executive Summary

Kroll Bond Rating Agency (KBRA) has assigned a long-term rating of **AA-** with a **stable outlook** to the \$176 million Hillsborough County Aviation Authority, Tampa International Airport Revenue Bonds, 2015 Series A (AMT), and long-term rating of **A+** with a **stable outlook** to the \$195 million Hillsborough County Aviation Authority, Tampa International Airport Subordinated Revenue Bonds, 2015 Series A (AMT) and Subordinated Revenue Bonds, 2015 Series B (Non-AMT). The ratings apply to all of the County's outstanding Aviation Revenue Bonds, which following delivery of the current offering will total approximately \$922 million.

The rating is based on KBRA's [U.S. General Airport Revenue Bond Rating Methodology](#), published on April 23, 2014. In the process of assigning the rating, KBRA reviewed multiple sources of information, met with Aviation Authority management, and conducted a site visit of Tampa International Airport (TPA) facilities.

### Security

The Senior Bonds are payable from a pledge of net revenues derived from the operation of the Airport System, including TPA and three general aviation airports, and are secured on a parity basis with outstanding Bonds under the Senior Trust Agreement. The Senior Trust Agreement also provides for Bonds that are designated "PFC Bonds", which are additionally secured by and payable from "Available PFC Revenues", as defined in the Trust Agreement on a subordinate basis to any outstanding standalone PFC Bonds. The Senior 2015A Bonds are not PFC Bonds.

The Subordinated Bonds are payable from and secured by a lien on the Pledged Revenues derived by the Authority from the operation of the Airport System that are available for payment of subordinated indebtedness under the Senior Trust Agreement. The lien of the Subordinated 2015 Bonds on revenues is subordinate to the lien of all Senior Bonds. The Subordinated 2015 Bonds are additionally secured by Available PFC Revenues. The lien of these Bonds on the Available PFC Revenues is subordinate to all Senior bonds designated as PFC Bonds, and any standalone PFC indebtedness.

### Use of Proceeds

2015 Bond proceeds will finance TPA's Main Terminal Transfer Level expansion, concessions redevelopment project, construction of a concessions consolidated warehouse, the Aviation Authority's (60%) portion of the Automated People Mover (APM), fund taxiway and bridge reconstruction, and South Terminal Support Area roadway improvements. Additionally, proceeds will be used to fund certain reserves accounts, capitalized interest on a portion of the 2015 Bonds, and the refinancing of a portion of the 2013A SunTrust note.

### Key Rating Strengths

- Management has adopted a Capital Program that addresses current and future capacity issues, while affording flexibility if expected growth does not materialize.
- Air trade area population growth trends support demand for air transportation given the predominance of origin and destination (O&D) passenger traffic.
- Limited airline concentration and strictly O&D nature of activity confer stability.
- Debt metrics remain satisfactory despite sizable current bond issuance. Non-general airport revenue bond financing sources moderate impact on airlines and support debt service coverage margins.

- Well maintained financial operations with comfortable liquidity; financial flexibility conferred by ability to levy a 1.5 mil ad valorem tax, which based on current valuations would generate approximately \$97 million/year.

### Key Rating Concerns

- Service area, with significant leisure component, is vulnerable to economic downturns, as evidenced by sharp enplanement declines due to the Great Recession.
- While management capability is viewed favorably by KBRA, certain policies and procedures are not comprehensively documented.

## Rating Summary

KBRA views the Authority's credit features, in combination, as providing favorable bondholder security. Management is highly competent, and has operated TPA in an effective manner that is recognized in a 2<sup>nd</sup> place ranking among North America airports, and a 5<sup>th</sup> place position among airports world-wide with 15-25 million in the ACI Airport Service Quality Awards for 2014. The Authority's Capital Plan is both thoughtful and flexible as it addresses passenger and traffic congestion and capacity issues, while allowing for down-scaling if anticipated growth is less than forecast. Although KBRA views management as highly capable, in KBRA's view certain policies and procedures, including enterprise risk management, succession and business continuity, and debt, are not fully documented. TPA primarily serves the four-county Tampa-St. Petersburg-Clearwater Metropolitan Statistical Area, with a population in excess of 2.9 million residents, and is among the fastest growing metropolitan areas in the U.S. The Air Trade Area's economy includes tourism, agriculture, construction, finance, health care, government, technology, and the Port of Tampa. There is a significant leisure component, and the region has sizable numbers of secondary residences, both vacation properties and investment real estate, which affect travel demand. Tourism and cruise activity are important economic components, which also influence air travel demand. According to Authority officials, in 2012 leisure travelers represented approximately 76.4% of passengers, while those traveling on business accounted for 23.6%. TPA is served by a core group of airlines, with no one airline holding a dominant position. During fiscal year 2014 Southwest and Air Tran had a combined enplanement share of 35.3% (merger of Southwest and Air Tran finalized December 31, 2014), the highest of any carrier. The top three airlines accounted for 72.2% of enplanements. TPA is virtually all O&D, and international enplanements, while exhibiting some growth, still account for less than 3% of total enplanements.

In KBRA's opinion, the economic base of the TPA continues to recover from the Great Recession. The recessionary impact on the region was severe due to significant declines in home values. While home values have risen post-recession, they remain below pre-recession levels. Unemployment rates in the Air Trade Area have declined from almost 12% in 2010 to 5.7% in January 2015, and are now below the U.S. average. Service area personal income also rebounded, but at a slower rate than Florida or the nation as a whole, and remains below both the State and U.S. Enplanement activity growth had been relatively modest in recent years, following significant decline during the recession and its immediate aftermath. However, during 2014, the Airport recorded a year-over-year increase of 2.1%, and the first six months of 2015 show a 6.5% increase over the same 2014 period. Additional domestic routes have been established and seats added. Still, enplanement levels have not reached the peak level achieved in fiscal year 2007, when enplanements exceeded 9.6 million.

Despite the relative proximity of other airports; Orlando International (MCO) is 80 miles to the northeast, Fort Myers Southwest Florida International is 130 miles south, and Sarasota-Bradenton International, 50 miles to the south, KBRA does not believe there will be any significant passenger erosion at TPA. It is KBRA's view that the presence of low cost carriers at TPA, and established travel patterns, promote stability. KBRA does believe that the catchment area of these airports may limit the drawing area of TPA, and MCO with substantial international activity, may make it difficult for TPA to attract large scale international service.

The Authority is now embarking on a three-phase Capital Plan with a potential cost of as much as \$2.5 billion. Phase I projects, which are now being financed, include construction of an automated people mover (APM), expansion of the main terminal, construction of a warehouse to consolidate concession operations, taxiway and bridge reconstruction and roadway improvement, and building of a consolidated car rental facility (ConRAC). These projects are expected to be completed in 2018. Phase II projects enable the future expansion of the main terminal, and include demolition and replacement of the existing hotel and service building, employee parking garage and air traffic control tower relocation, and third maintenance hangar development. Anticipated completion of these projects is 2023. The final phase of the Master Plan will expand the Main Terminal through the creation of a new airside building with international and domestic gates, expansion of one of the existing airside, and additional increases in concession space. Phase III will be undertaken as passenger demand dictates. In KBRA's opinion, the ability to adapt the Capital Program to changes in forecast passenger demand is a strength.

The ConRAC and APM components of Phase I are anticipated to be largely paid from customer facility charge (CFC) secured bonds (\$357.4 million) and pay-as-you-go CFC revenues (\$54.8 million). The Authority expects to issue approximately \$375 million of CFC stand-alone bonds in August 2015 to finance the ConRAC and 40 percent of the APM. Federal Airport Improvement Program (AIP) grants and Florida Department of Transportation also provide a portion of funding, and act to reduce the needed GARB contribution. Additional GARB borrowing to finance Phase II projects totals \$188 million, with an issuance time frame of 2017 and 2020.

Following delivery of the current issues of Senior and Subordinate Bonds, there will be approximately \$922 million in GARB debt outstanding. All of the Authority's indebtedness is in the form of fixed rate bonds, and there are no swaps outstanding. Bond maturity is in 2044, and annual debt service for the Senior Bonds ranges from approximately \$49 million in fiscal year 2016 to \$15 million at maturity, while the Subordinate Bond debt service peaks at \$24.5 million in fiscal year 2025 and declines to \$19.7 million in fiscal year 2044. The debt service impact of the Subordinate Bonds is fully offset by the expectation of passenger facility charge (PFC) support. The use of PFC revenues and non-GARB sources to support the Capital Plan help to maintain low airline costs. An additional measure to moderate airline costs is the sharing of surplus revenues with Signatory Airlines.

The Authority has maintained historically favorable financial operations, with coverage of Senior Bonds ranging from 1.38x debt service requirements in fiscal year 2010 to 1.86x in fiscal year 2014. Combined coverage of Senior and Subordinate Bonds was 1.71x in fiscal year 2014. Subordinated Bonds were first issued in October 2013. Operations derive significant support from non-airline sources, which contributed more than 75% of revenues in fiscal year 2014. Parking is the largest source, contributing almost one-third of operating revenues, followed by car rentals at approximately one-fifth, and concessions at approximately 12%. Each of these revenue components has increased at a compound annual growth rate (CAGR) of more than 4% over the last four years. The Authority is entering into new concession agreements in 2015, which are expected to generate more revenue than the current agreement, due to concession enhancements and a wider variety of offerings in the Terminal. Current on-site and most off-site car rental operations will move to a Consolidated Rental Car Facility on October 1, 2017. That facility

will be mainly financed from customer facility charge (CFC) secured bonds that are scheduled to be issued in August 2015. Authority operating expenses have increased at an annual growth rate of 3.8% for the fiscal years between 2010 and 2014. On a per enplaned passenger basis, O&M expenses have grown at a CAGR of 2.9% over this period, primarily due to inflation. Annual increases have been below budgeted levels through cost-stabilization initiatives. Liquidity position is strong at in excess of 365 days' cash on hand.

TPA's Airline Use and Lease Agreement is in effect until September 30, 2020, and employs a hybrid rate-making methodology, with a residual landing fee and compensatory terminal rental rate. It provides for revenue sharing, with 80% of remaining revenues after meeting all obligations to the Authority, with the balance to the airlines. The Authority receives a minimum of \$20 million annual, and amount that has been growing. The cost per enplaned passenger (CPE), at \$5.23 during fiscal year 2014, is among the lowest for large hub airports in the U.S. KBRA undertook a stress case to determine the impact on CPE based on event-related reductions in passenger activity similar to what has been experienced in the aftermath of events like 9/11 and the Great Recession. Under a scenario with more onerous enplanement declines followed by recovery, associated non-airline revenue adjustments, annual inflation-driven O&M increases, and borrowing the full amount of Phase II improvements, CPE rises to approximately \$7.34 in 2024, but remains competitive with peer airports.

Based on review of the six KBRA Rating Determinants included in the KBRA Methodology for rating U.S. General Airport Revenue Bonds, KBRA has assigned a rating to each Determinant, which is summarized as follows:

- Management: Favorable
- Economics/Demographics of the Service Area: A+
- Airport Utilization: A+
- Airport Debt/Capital Needs: AA
- Airport Finances: AA
- Legal Mechanics and Security Provisions: AA/AA-

## Outlook: Stable

The stable outlook reflects KBRA's expectation that passenger traffic levels will remain stable to slightly increasing, borrowing will approximate what is currently anticipated, debt service coverage levels will remain comfortable, and non-airline revenues, and the application of PFC revenues will continue to temper increases in airline payments.

In KBRA's view, the following factors may contribute to a rating upgrade:

- More consistent pattern of passenger traffic growth.
- Increased diversification of the local economy

In KBRA's view, the following factors may contribute to a downgrade of the rating:

- Passenger traffic erosion due to increased drawing capacity of nearby airports.

## Bankruptcy Assessment

It is KBRA's understanding that any court reviewing a Chapter 9 petition filed by the Authority would find that the Authority is an eligible debtor under Chapter 9, if the Authority's petition were permitted by the Florida governor. However, KBRA considers it possible that the Authority's eligibility to file a Chapter 9

petition could be challenged by a party arguing that the Authority is a constituent element of the State of Florida because the Governor of Florida appoints three of the five members of the Authority Board. States are not permitted to file a petition under the Bankruptcy Code. Because, however, the Authority was created under law to operate the airports of Hillsborough County, and because state law deems the Authority to be an independent special district, with the power to sue and be sued, KBRA views this argument as unlikely to be accepted by a court. Thus, assuming that the Authority is specifically authorized to file a Chapter 9 petition under Florida law, and meets the other eligibility requirements of Bankruptcy Code Section 109 (including being insolvent, desiring to effect a plan of adjustment and meeting certain creditor negotiation requirements), it would be permitted to file a Chapter 9 petition.

## Key Rating Determinants

### **Rating Determinant 1: Management**

TPA and three general aviation airports in Hillsborough County, are owned by the Authority, and collectively known as the Airport System. The Authority was created as an independent special district pursuant to Chapter 23339, Laws of Florida, Acts of 1945, with exclusive jurisdiction, control, supervision and management over all publicly owned airports in Hillsborough County. The Act creating the Authority addresses the importance of County airports to Florida's economic health and tourism industry, by stating "the economic validity and stability of the publicly owned or operated airports in the county is a matter of statewide importance" and "the policy of this state is to promote the development of commerce and tourism to secure the people of this state the benefits of those activities conducted in the state". Although a self-supporting entity, the Authority has the ability to levy a 1.5 mill ad valorem tax, which based on current valuations would generate approximately \$97 million. The Authority has not collected any tax funds since 1973, and has no current intentions to do so.

In KBRA's view, the Authority's mission and vision statements encapsulate its priorities. "The mission of the Authority is to be a major driver of economic growth in the Tampa Bay region. "We will be leading-edge innovators to create global access and extraordinary customer experiences through our people and facilities to build prosperity for our stakeholders and the region". The Authority's vision statement dovetails with the mission statement: "The vision of the Authority is to be a vibrant aviation gateway for Tampa Bay, providing access and economic opportunity for our stakeholders." Underlying these statements are core values which include professionalism, partnership, transparency, credibility, efficiency, and customer focus. In KBRA's view these values are underscored in the Authority's commitment to implementing capital improvements that are economically beneficial, and environmentally and socially responsible. These include reclaimed water programs, installation of electric vehicle recharging stations, and conversion of a large proportion of the vehicle fleet to compressed natural gas.

### **Governance**

Pursuant to the authorizing Act, the Authority is governed by a five-member Board, consisting of three residents of the County appointed by the Governor for four year terms; the Mayor of the City of Tampa, ex officio, and a Commissioner of (and selected by) the Board of County Commissioners of the County, ex officio, for a one-year term. To be eligible for appointment by the Governor, the person selected must be a resident of the County and not employed by the County or a municipality, or be an elected governmental official. Each member continues to serve until a successor has been selected. No member receives any compensation for services as a member. The Chief Executive Officer (CEO) is hired by the Board, and in turn is responsible for day-to-day administration, management and operation of the Authority in accordance with policy established by the Board, and the performance of other duties as authorized by the

Board. The Board adopts before October 1 an annual budget prepared by the CEO. Approximately 7,000 people are employed at TPA, including 590 Authority employees as of March 31, 2015. The Authority's budget for the fiscal year ending September 30, 2015 provides funding for up to 625 positions.

## **Management Experience**

Joseph W. Lopano, Chief Executive Officer of the Authority, assumed his position in January 2011. In addition to TPA, he directs the operations of three general aviation airports in the Airport System. Prior to joining the Authority, he worked at the Dallas/Fort Worth International Airport for 14 years as its Executive Vice President for Marketing and Terminal Management. Mr. Lopano has extensive experience in the airline business, having held management positions at Continental Airlines, Lufthansa, BWIA, and Pan Am. He is Past Chairman of ACI-NA's International Air Service Committee. Damian L. Brooke, Vice President of Finance and Information Technology, assumed his position at the Authority in March 2011. Previously, he was the Assistant Vice President, Market Planning and Analysis at Dallas/Fort Worth International Airport. Prior to that, he headed up the international airport and government consulting practice for Sabre Holding Inc. He has also worked in Doha, Qatar for Qatar Airways, and in Dallas for American Airlines. Ann Davis, Director of Finance, joined the Authority in July 1993. She is a Certified Public Accountant, and prior to joining the Authority, had 10 years of accounting management experience in the private sector. She leads the teams responsible for the Financial Operations and Financial Planning areas of the Authority. Christopher D. Minner, vice president of Marketing, joined the Authority in March 2011. He leads the Authority's Air Service Development, Marketing, Airline Real Estate, and Commercial Real Estate teams. Prior to joining the Authority, he was the Assistant Vice President of Air Service Development at Dallas/Fort Worth International Airport, and before that worked eight years at the Oakland International Airport as a manager of marketing research and analysis. Al Illustrato, Vice President of Facilities and Administration, joined the Authority in 1989. He leads the Authority's Planning and Development, Maintenance, Human Resources, Administration, Diversity, and Risk Management teams.

## **Key Policies and Procedures**

The Authority has enacted various policies to ensure that operations are effectively maintained and potential risks are accounted for. While the Authority undertakes a variety of risk assessments, KBRA believes that the absence of formally documented policies for enterprise risk management, succession and continuity planning, and debt, as already exists for long-range financial and capital planning, holds back transparency. In KBRA's view, management is very capable, as underscored by 2014 Airports Council International (ACI) Airport Service Quality awards that ranked TPA Top 2 Airports in North America, and Top 5 in the world for customer satisfaction, and maintenance of a favorable relationship with incumbent airlines, as demonstrated by the October 2013 extension of the airline use and lease agreement.

## **Enterprise Risk Management**

The Authority does not have a comprehensive enterprise risk management plan. Instead, risk management policies and procedures are focused on the adequacy of insurance coverage both for the Authority and companies conducting business with the Authority. The Policy requires that adequate property, liability and business interruption insurance be maintained in accordance with the Trust Agreement and sound business practices, with biannual reviews of appropriateness and adequacy of coverage. The Procedures focus on review of insurance language, coverage limits, uniform reporting, investigating and handling of claims. Also recognized, are notification procedures for events occurring at Authority general aviation airports, and standards for operating motor vehicles on behalf of the Authority. In KBRA's view the Authority lacks a robust enterprise risk management policy that identifies, assesses and prioritizes organizational risks, and centralizes the formulation of mitigation plans.

## Master Plan Approach

The Authority's Master Plan update approved in 2013 forms the framework for the large-scale capital program underway at TPA. The Master Plan provides a blueprint for short (five-year), intermediate (10-year), and long-term (20-year) development. The Master Plan outlines three phases of expansion that will accommodate more than twice the number of current enplanements. KBRA believes that it provides a measured approach to growth by allowing the flexibility to build as demand dictates, with phases based on passenger volume. KBRA believes this aspect is critical since the Authority's last master plan, completed in 2005 called for a new terminal north of the existing one. However, the fiscal crisis, and changes in the airline industry in recent years slowed passenger growth, delaying the need for expansion. Enlargement and extension of the life of the current terminal also preserves land that would otherwise be used for a separate terminal.

## Strategic Business Plan

Authority policy requires that any approved Master Plan be accompanied by a detailed Strategic Business Plan to estimate costs and identify funding strategies for major capital projects over a 10-year planning horizon. The Plan was last updated in November 2013. However, in the interim, the Authority continues to generate financial modeling scenarios. The plan provides a detailed funding analysis of operating expenses, revenues and projected airline charges, and establishes development and financial goals along with measureable criteria. The plan's primary objective is to balance the Authority's financial health with the need to maintain competitive airline costs, while maximizing revenue opportunities. Funding strategies are designed so that facilities and improvements are brought on line when needed. The Plan is predicated on a financial structure that allows the Authority to maintain its annual debt service levels with an aim to minimizing any impact on cost per enplanement, maintain current rating levels, and provide future financial flexibility. The Strategic Business Plan establishes five financial goals: (1) maximize revenue generation; (2) minimize Authority long-term debt; (3) diversify non-airline revenue sources; (4) maintain Authority-funded debt service at current levels; (5) maintain existing debt ratings.

## Positive Relationship with Signatory Carriers

The Authority has maintained favorable relations with its signatory carriers. The current use and lease agreement was extended for five years through September 2020. The airlines enjoy a relatively low cost per enplanement (CPE), and a debt structure that minimizes the future impact on CPE, despite significant current issuance. The signatory carriers issued letters of support to the Federal Aviation Administration (FAA) for the Master Plan projects, and there have been no issues with majority-in-interest (MII) approval. The airlines have very limited airline approval of capital projects. The Authority meets twice annually with its signatory airlines to discuss results, as well as upcoming Authority initiatives.

## Budgetary Process

Adoption of an annual budget is required under Florida state statutes; the Authority's enabling act, the Master Trust Agreement, and the Airline-Airport Use and Lease Agreement. The Authority's fiscal year begins on October 1 and ends September 30 of the following year. Typically, the preparation of the budget begins in April or May with a review of the current year's expected operating results. Each Authority department prepares a detailed operating expense budget, including equipment needs for each of the cost centers within its control for the subsequent fiscal year. The operating revenue budget is also prepared with non-agreement revenue, such as concession and public parking revenues. Estimates are based on various activity levels including projected passenger volumes. Capital budgets for the upcoming year (through the Authority's Development Committee) are also submitted during this time frame. The process of calculating fees to the signatory airlines is accomplished in conjunction with the annual budgeting

process. The detailed budgets are summarized for presentation to the signatory airlines in July, and to the Authority Board at its August meeting. The signatory airlines through the Airlines-Airport Affairs Committee are entitled to review and comment upon, but do not have the right to approve or disapprove the proposed operating or capital budget. Once approved by the Authority Board, the budget and revised rates and charges to the signatory airlines become effective October 1.

A summary comparison of budget to actual expenses and revenues is submitted to the Authority Board on a periodic basis. The capital budget is monitored by the Planning and Development Department and Finance Department as well as the Authority's Development Committee.

## **Marketing Efforts**

The Authority engages in marketing and promotion through numerous channels, as a means of highlighting the strengths of the airport system, and building relationships with airlines, potential real estate partners, potential tenants and others. This is accomplished through annual reports, airport information literature, news releases, social media, informational briefings for domestic and international visiting delegations, website communications, business development meetings, advertising, special events promotion, sponsorship of promotional events, sporting and cultural events, membership in various organizations to advance business goals, partnering with various other organizations such as Chambers of Commerce, Visit Tampa Bay, Visit St. Pete/Clearwater, and incumbent airlines in an effort to attract and retain air service. To enhance the knowledge of Board and staff members, the Authority participates in aviation-related organizations, including Airports Council International-North America (ACI-NA).

The Authority has established an Air Service Incentive Program (ASIP) to entice both passenger and cargo airlines to offer new service to domestic and international destinations. Depending on the level of new service provided, an airline may qualify for waived charges and fees, and marketing dollars to support new service. ASIP is completely revenue neutral for incumbent carriers, as all incentives are paid from discretionary capital and reserve funds.

Based upon KBRA's review of the Authority's governing structure, policies and procedures, and management background and experience, KBRA has assigned a "Favorable" assessment to the Management Rating Determinant.

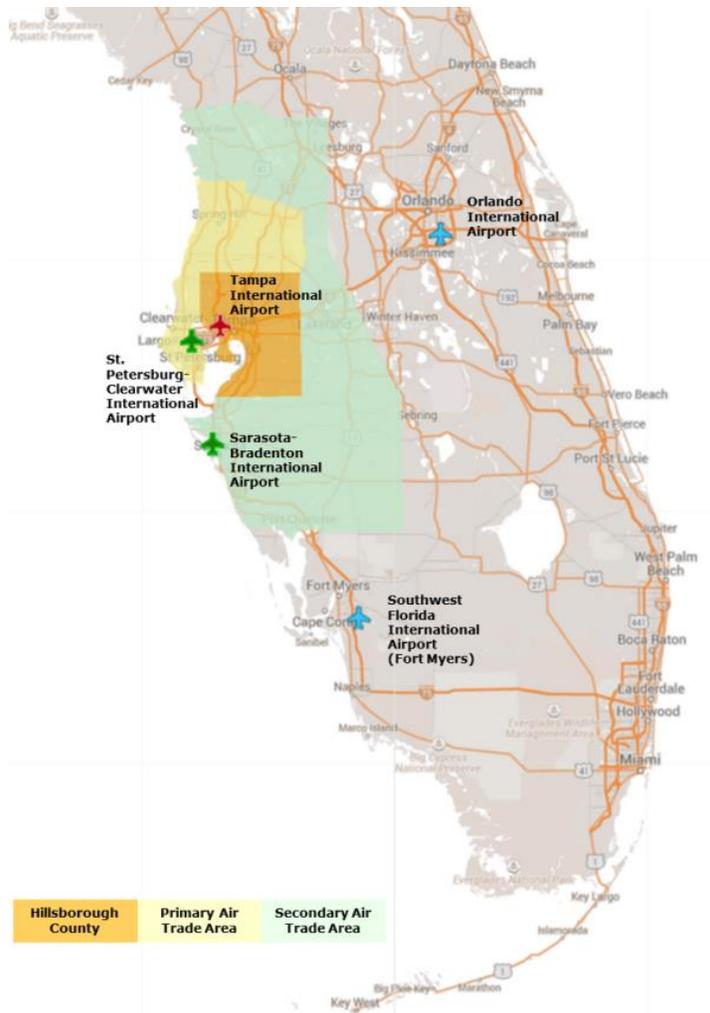
## **Rating Determinant 2: Economics/Demographics of the Service Area**

TPA is located approximately six miles west of Downtown Tampa in Hillsborough County, FL. The Air Trade Area is the Tampa-St. Petersburg-Clearwater Metropolitan Statistical Area (MSA). The MSA consists of Hillsborough County, Hernando County, Pasco County, and Pinellas County. TPA's service area is extended to a secondary air trade area<sup>1</sup> that extends to Orlando International Airport's (MCO) service area.

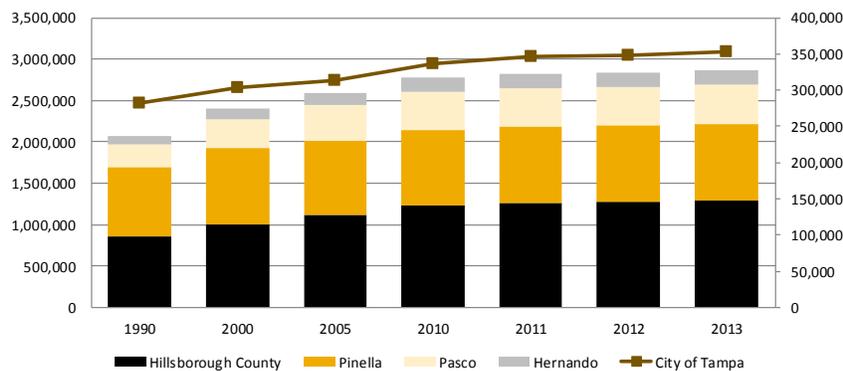
Total population in the Air Trade Area in FY 2013 was 2.86 million. Hillsborough County is the largest county by population followed by Pinellas County with 1.29 million residents and 930,000 residents, respectively. Between 2010 and 2013, the Air Trade Area has recorded population growth of 3%, which is in excess of the national rate of 2.2%.

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<sup>1</sup> Secondary air trade area includes: Citrus, De Soto, Hardee, Manatee, Sarasota, Sumter, and a portion of Polk County



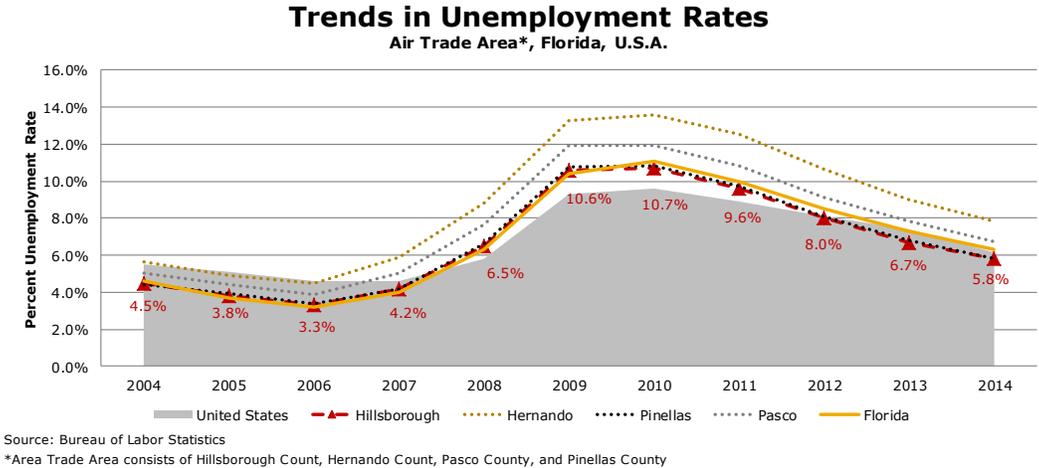
**Historic Population Trends For Primary Service Area**



Source: US Census Bureau - American Community Survey  
 \* Primary Service area includes Hillsborough CNTY, Pinella CNTY, Pasco CNTY, Hernando CNTY

The economic base of the Air Trade Area continues to recover from the Great Recession. Gross Regional Product shows a compound annual growth of 1.7% between 2010 and 2014, which is slightly stronger than the State’s 1.6% but is weaker than the nation’s 2.1%.

Growth in non-farm employment showed a compound annual increase of 1.96% between 2010 and 2013. Unemployment rates of the Air Trade Area mirror that of the State and the nation. As shown in the graph below, unemployment rates in the Air Trade Area have declined sharply from their recessionary highs. KBRA views the Air Trade Area’s post-recession employment recovery favorably as it provides a stronger basis for local residents’ demand for air travel.



Housing market values in the Air Trade Area declined precipitously during the Great Recession and recovery has been slow. Average median home value is now approximately 85% of the State level, and represents 75% of its 2007 level. Based on the Case-Shiller Home Price Index for CY 2014, the home price index in the Air Trade Area is approximately 94% of the Composite of 20 metro area and 97% of the national average.

Per capita personal income in the Air Trade Area averaged \$37,663 in 2013, which approximates 91% and 84% of State and national averages, respectively.

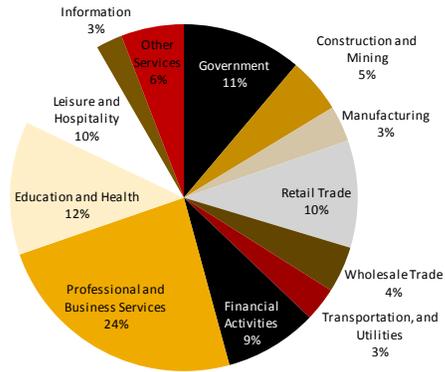
**Business Environment Lends Support to O&D Traffic**

The Tampa Bay area is a popular vacation destination. It has an average of 360 days of sunshine during the year, close access to beaches, tourist attractions, and business meeting venues. Hillsborough County alone has roughly 170 hotels and over 21,000 hotel rooms with an approximately 65.5% hotel occupancy rate in 2013.

Despite the importance of leisure-related activities, four of the 16 Fortune 500 companies that are headquartered in Florida are located in the Air Trade Area or secondary Air Trade Area. As shown in the location quotients chart on the right below, the County has high job concentration in professional and business services, retail and wholesale trade, education and health, and leisure and hospitality. KBRA notes that most of the concentrated employment sectors are highly sensitive to changes in the macroeconomic conditions. Only education and health services are highly resilient to economic downturns.

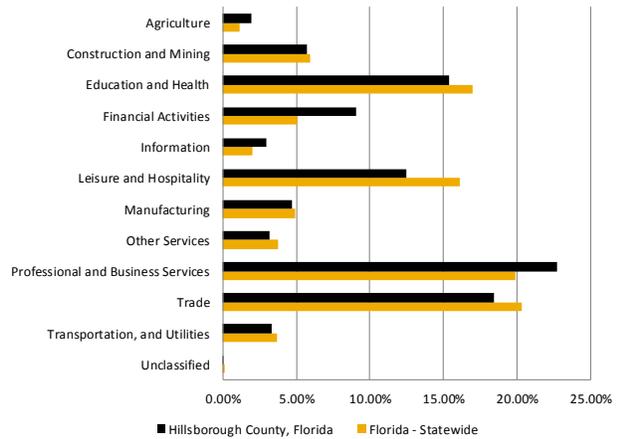
Professional and business services represent the largest sector with 24% of total employment in the County in 2013. The second largest employment sector was retail and wholesale trade, which represented 14% of total employment. Education and health represented 12% of employment, followed by various governments.

**Hillsborough County Employment by Sector  
CY 2013**



Source: Bureau of Labor Statistics

**2014 Location Quotients**



The top 15 employers in the Air Trade Area are concentrated in public or not-for-profits entities, which include education, health care, and government, as shown below.

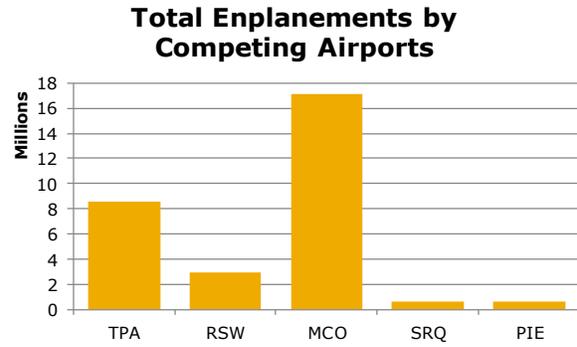
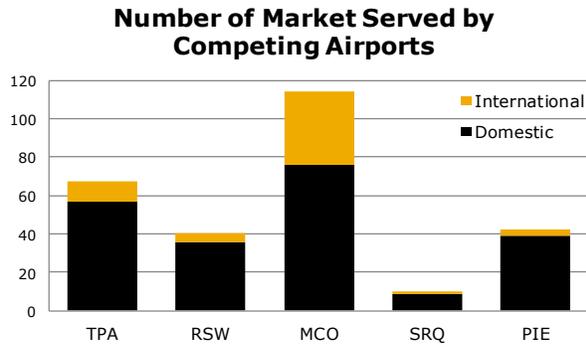
Top 15 Employers in the Air Trade Area		
Employers	Business Type	Number of Employees
Publix Super Markets	Grocery Stores	33,000
Hillsborough County School District	Public School District	25,657
BayCare Health System	Health Care System	22,900
University of South Florida	Public University	16,488
HCA West Florida	Health Care System	16,461
Pinellas County School Board	Public School District	16,266
MacDill Air Force Base	Air Force Base	14,500
Polk County Public School District	Public School District	13,148
State of Florida	State Government	11,095
Hillsborough County Government	County Government	9,846
Pasco County School District	Public School District	8,760
U.S. Postal Service	Postal Service	7,598
Tampa General Hospital	Hospital and Affiliated Health Care Facilities	6,500
Bloomin' Brands Inc.	Chain Restaurant Operator	5,300
Sarasota County School District	Public School District	5,199

Source: Hillsborough County CAFR FY 2014

**Geographically Competing Facilities**

St. Petersburg-Clearwater International Airport (PIE) is located in the Primary Air Trade Area, just 12 miles west of TPA. PIE could be a potential competitor of TPA due to its close proximity. However, PIE's scope of operation is small and somewhat limited. As of September 2014, PIE serviced approximately 595,000 enplaned passengers or 6.94% of TPA's volume with only 17 averaged daily departures.

Sarasota-Bradenton International Airport (SRQ) is located in the secondary Air Trade Area, approximately 50 miles south of TPA. SRQ's size and scope of operation is similar to PIE. Orlando International Airport (MCO) is located outside of the Air Trade Area, approximately 80 miles northeast of TPA. MCO is the largest competing international airport with service area bordering TPA's. MCO's size and scope of operation is twice of that of TPA. In addition, the customer base for MCO is different from TPA because tourists traveling to Orlando are attracted by the various theme parks in the area as opposed to leisure and business activities in the Tampa Bay area. Southwest Florida International Airport (Fort Myers) (RSW) is also located outside of the Air Trade Area, approximately 130 miles south of TPA. RSW's size and scope is half of that of TPA. MCO is the only domestic market served by RSW but not served by TPA. Due to the proximity of TPA and MCO, traveling by car is faster than flying.



Source: Hillsborough County Aviation Authority

Port Tampa Bay is the largest seaport by tonnage as of FY 2014 and has a growing cruise industry presence. KBRA positively views the port activities and notes that they contribute to demands for air traffic at TPA. The Air Trade Area has a vibrant trucking industry, which is reinforced by a developed network of interstate highway system that connects the Air Trade Area to various major U.S. markets such as Orlando, Daytona Beach, Miami, Atlanta, Cincinnati, and Detroit. CSX Corporation provides freight rail service from the Air Trade Area to other major freight hubs and ports east of the Mississippi River.

Based on the foregoing, KBRA views the economics/demographics of TPA’s service area as consistent with a “A+” Rating Determinant rating.

### **Rating Determinant 3: Airport Utilization**

#### **TPA Features**

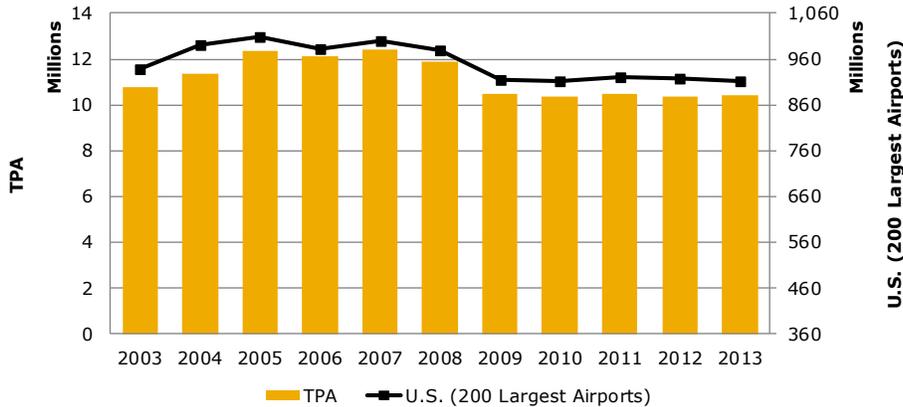
TPA is a large air traffic hub, which occupies a 3,400 acre footprint and ranks the 28<sup>th</sup> largest airport in the U.S. The Airport System consists of the Airport, Peter O. Knight Airport, Plant City Airport and Tampa Executive Airport. TPA has three runways (two north-south, one cross-wind), which are connected with a fully integrated system of taxiways.

The existing passenger terminal facilities consist of a Main Terminal Building, 4 active Airside Buildings (A, C, E, and F) with a total of 59 gates that are connected to the Main Terminal Building by a fully automated elevated passenger transfer system. The passenger terminals are capable of accommodating multiple wide body aircrafts such as the B747-400s and B757 aircrafts simultaneously. Adjacent to the main terminal are parking garages, rental car facilities, and a 300-room hotel.

#### **TPA Service and Destinations**

TPA is primarily origin-destination (O&D); connecting enplanements represent less than 10% of overall enplanements. The airport is served by a total of 22 carriers, of which 10 carriers exclusively serve domestic destinations, seven serve international destinations, and five serve both. Roughly 47.8% of the enplaned passengers are served by low cost carriers in 2014. The Airport offers nonstop flights to 86 domestic and 15 international destinations. TPA offers a total of 257 daily departures. International destinations include 4 cities in Canada, 8 cities in Caribbean/ Latin America, and 3 cities in Europe. As of FY 2014, international enplanements represented 3.4% of passenger activity.

### Available Seat Trends



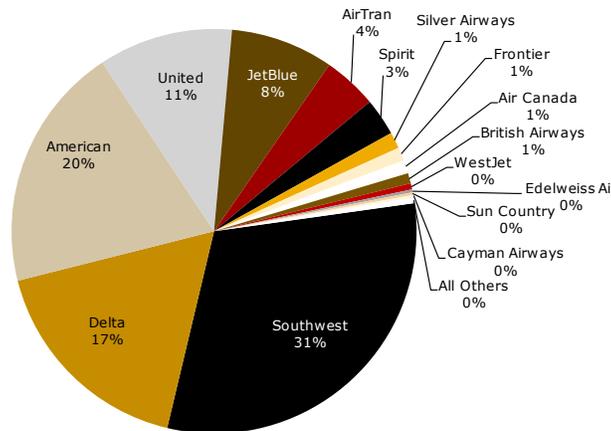
Source: US DOT O&D SURVEY and T-100 Database

In general, the total number of available seats for TPA experienced declines since the peak in 2007 as a result of the Great Recession, as shown in the graph above. As of 2013, the total number of available seats compared to 2003 for TPA was down by 16.4% versus an 8.9% decline for the U.S. Between 2003 and 2013 total number of seats declined by 3.5% for TPA. As airlines have moved away from a market share model to one of profitability, the number of available seats has declined. However, recent route additions and increased flight frequencies resulted in passenger activity growth in FY 2014 and the first half of FY 2015.

### Share of Enplaned Passengers by Airline

As illustrated in the chart below, Southwest Airlines is the primary carrier at TPA, which accounted for 30.9% of total enplanements in FY 2014. Air Tran, which was integrated with Southwest on December 31, 2014, accounted for 4.3% of 2014 enplanements. American Airlines (including American and US Airway) is the second largest carrier, and accounted for 19.6% of total enplanements, followed by Delta at 17.3%, United Airlines at 10.7%, and JetBlue at 8.2%. It is KBRA’s view that TPA benefits from limited airline concentration, and its mainly O&D nature confers stability.

Share of Total Enplaned Passengers by Airline  
FY 2014



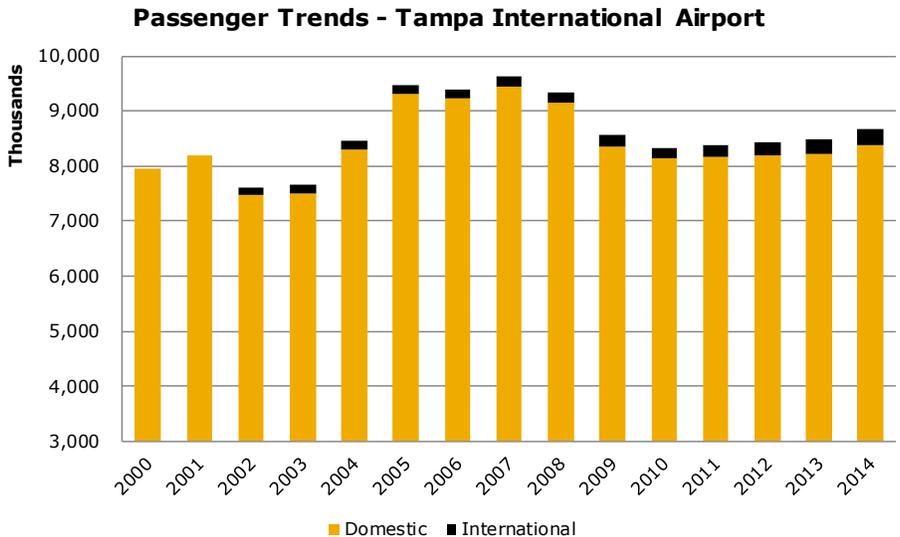
Source: Hillsborough County Aviation Authority

**Enplanement Trends**

Since 2000, TPA has been affected by exogenous events such as the 9/11 terrorist attacks and the Great Recession during 2007-2009. Both events have resulted in reduction in passenger activity. As shown in the graph below, domestic enplanements dropped by 8.7% post-9/11 tourist attack and it took two years to recover. This trend is consistent with the U.S. domestic enplanement trend after the terrorist attack.

Domestic enplanements declined by 8.8% and total enplanements declined by 8.5% in FY 2009. Compounded annual growth rate in domestic enplanement during 2008 to 2012 was negative 2.7%, which is more than that of the U.S. at negative 0.6% during the same period.

Post-recession year-over-year domestic enplanement growth has been nominal but steady, with a compounded annual growth rate of 0.74%. International enplanement growth remained strong and steady throughout the U.S. recession and only experienced one year of decline in FY 2010. The compound annual growth rate of total enplanements for the 10 year period between FY 2004 and FY 2014 was 0.24%. Compound annual growth rate for domestic enplanement was small at 0.1% while international enplanement was very strong at 6.2%. KBRA views the strong growth in international enplanements positively, but despite recent successes in adding service, international activity remains a small component of overall passenger activity.



Source: Hillsborough County Aviation Authority

Based on the forgoing, KBRA views that TPA’s Airport Utilization as consistent with a “A+” Rating Determinant rating.

**Rating Determinant 4: Airport Debt/Capital Needs**

**Master Plan Projects**

The Authority is now embarking on a major capital program (\$2.5 billion) that implements key elements of the 2012 Master Plan. Projects have been identified that allow airport facilities to accommodate forecast passenger and aircraft activity through 2028. The Master Plan projects consist of three phases; Phase I: Decongestion; Phase II: Enabling; Phase III: Expansion.

Phase I projects include construction of an automated people mover (APM), expansion of the main terminal, construction of a warehouse to consolidate concession operations, taxiway and bridge reconstruction and roadway improvement, and building of a consolidated car rental facility (ConRAC). These projects are designed to decongest TPA's roadways and passenger drop-off and pick-up locations; provide connections to regional transportation systems; allow for expansion of rental car operations that are expected to reach capacity in 2016; add spaces to TPA's long-term parking garage operations by moving rental car operations from the garage; increase opportunities for commercial development in the south area of the Airport campus as a means of diversifying revenues; and increase meeter/greeter circulation in the Main Terminal, as well as create new concession opportunities; establish new curbside at ConRAC for passengers using public transportation, and commercial and personal vehicles. These projects are expected to be completed in 2018.

Phase II projects enable the expansion of the main terminal, and include demolition and replacement of the existing hotel and service building, employee parking garage and air traffic control tower relocation, and third maintenance hangar development. Anticipated completion of these projects is 2023. The final phase of the Master Plan will expand the Main Terminal through the creation of a new airside building with international and domestic gates, expansion of one of the existing airside, and additional increases in concession space. Phase III will be undertaken as passenger demand dictates. KBRA views this approach favorably; as it reduces the risk that unneeded facilities will be constructed. KBRA also believes that the decision to expand the current terminal in lieu of proceeding with a separate new terminal will prove advantageous since it limits the potential for an under-utilized capacity, and preserves land for alternative uses. Since Phase III is not expected to be undertaken for nearly ten years, costs for specific elements have not been quantified, and funding sources remain to be determined.

## **Master Plan Financing Sources**

Although the total cost of the three phases of the Master Plan is a substantial \$2.5 billion, the impact on the Authority's general airport revenue bond (GARB) levels and effect on airline costs is considerably more modest. Phase I project costs total approximately \$953 million with the GARB bonding component limited to the aforementioned Series 2015 Bonds (\$324 million). Included in this amount are the 2015 subordinated bonds that are also secured by, and expected to be supported by PFC revenues. The ConRAC and APM components of Phase I are anticipated to be largely paid from customer facility charge (CFC) secured bonds (\$357.4 million) and pay-as-you-go CFC revenues (\$54.8 million). The Authority began collecting a CFC in the amount of \$2.50 on October 1, 2012, which was increased to \$5.00 effective April 1, 2014. An increase in the CFC collection level to \$5.95 became effective on July 6, 2015. The Authority expects to issue approximately \$375 million of CFC stand-alone bonds in August 2015 to finance the ConRAC and 40 percent of the APM. Beside the use of CFC revenues, the amount of required GARBs is also reduced by the Authority's ability to secure a \$178.6 million grant in 2014 for the APM project. The grant is being paid over a five-year period (2014-2018).

Similarly, Phase II projects benefit from non-GARB revenue sources. Of the \$371 million in total project costs, \$162 million, or 44% will be funded from GARBs. Phase II-related bond issuance is assumed in 2017 and 2020. Federal Airport Improvement Program (AIP) grants account for \$61.3 million (16.5%), and \$147 million is expected from a public/private partnership involving a still to be determined source. Proceeds are associated with office development, buyout of the existing hotel, and construction of a third hangar. If the Authority does not enter into a public/private partnership, it is assumed that these projects would be deferred or would seek alternative funding.

## Capital Improvement Program (FY 2015–FY 2024)

Besides the Master Plan projects, the Authority is in the midst of a 10-year \$647 million CIP designed to refurbish and improve existing facilities and infrastructure. The airfield (\$229.8 million) and terminal complex (\$178.7 million) receive the largest proportion of funding, but commercial landside, cargo, general aviation, roads and grounds are also addressed. The Authority typically spends in the range of \$50 million to \$80 million annual on maintenance and capital projects, with \$25 million to \$35 million funded from Authority revenues. GARB funding is limited to \$25.5 million, with the largest share of revenues coming from Authority funds (\$227.7 million) and pay-as-you-go PFC funding (\$177.9 million). AIP grants (\$131.5 million), and FDOT grants (\$84.7 million) supplement these sources.

## Outstanding Authority Obligations

Prior to the present issuance of the Senior 2015 bonds, Series A (\$176 million) and Subordinated 2015 Bonds Series A (\$22.8 million) and Subordinated 2015 Bonds, Series B (\$172.2 million) debt totaled \$551.2 million. The bulk of outstanding bonds are senior lien obligations. The Authority first issued subordinated debt under a Subordinated Trust Agreement in 2013, and there is currently \$156.7 million outstanding. The 2013 Subordinate Bonds, additionally secured by Available PFC Revenues, are payable on a subordinated basis to approximately \$26 million of Series 2009A senior PFC bonds. The Authority does not presently have any outstanding bonds solely secured by PFC revenues, but if there were, those bonds would enjoy a prior lien to both the senior and subordinate PFC bonds. All debt is in the form of fixed rate obligations. Bonds for the most part are structured with 30-year maturities, with a combination of common and series specific cash-funded debt service reserves. There are no swaps currently in effect.

The Authority also has a revolving credit agreement with SunTrust Bank in an amount not to exceed \$200 million (\$132 million in available capacity). Draws are based on an estimated need funding schedule submitted by the Authority semi-annually, projecting the monthly funding needs for the upcoming six months. Each draw on the revolving credit agreement is tied to a specific project or group of projects. The Authority covenanted in the revolving credit agreement that any bond proceeds of senior bonds, subordinate bonds, and grant proceeds received to refinance costs associated with project initially financed with Agreement draws will be used first to repay draws made specifically for that project. The Notes are payable from the Surplus Fund on a subordinate basis to both the senior and subordinate revenue bonds.

## Majority-In-Interest (MII) Provisions

Procedures established under the Airline Use Agreement provide limited airline review of TPA capital projects. Capital expenditures relating to new development, planning or expansion projects in the terminal complex and airfield cost and revenue centers with a net project cost in excess of \$10 million are the only expenditures requiring MII approval under the Agreement. The Authority meets with signatory airlines to discuss a particular project. If within 30 days of that meeting, a MII of signatories does not issue a written disapproval, the Authority may proceed with the capital expenditure. With respect to the terminal cost and revenue center, MII is defined as 50% of the signatory airlines at the Airport, who have cumulatively paid at least 50% of total terminal rental payments for the six months preceding the consideration date. With respect to issues pertaining to the Airfield Cost and Revenue Center, 50% of the signatory airlines, who have landed 50% of the total landed weight for the preceding six month period.

## Notwithstanding Capital Program Scope, Debt Levels Remain Manageable

The Authority's debt levels are expected to remain in the moderate range, due to the extensive availability of non-GARB funding sources. Even after factoring in the 2015, 2017 and 2020 borrowing, annual senior lien debt service requirements remain essentially level through 2037, in the range of \$50 million to \$57

million. Thereafter, requirements rise, initially to about \$65 million, and ultimately to \$80 million in 2047. Subordinate debt service requirements, currently at \$21.5 million, rise to \$24.5 million, before declining to \$19.7 million through maturity in 2044. Annual debt service does not reflect any offset from PFC revenues. Phase III financing requirements are also not reflected. KBRA considers this structure as reasonable, as are expectations for long-term air trade area population growth, which is likely to translate into enplanement growth for this O&D facility, moderating the impact on debt ratios. GARB debt per enplanement rises to over \$100 per enplanement with the current financing, which is moderate for large sized hubs<sup>2</sup>. However, debt service requirements per O&D enplanement are in the relatively strong range<sup>2</sup>. The debt structure is favorable, although as note in the Management Section there is no adopted debt management policy.

Based on the foregoing discussion of debt/capital planning metrics, KBRA has assigned a "AA" rating determinant rating.

## **Rating Determinant 5: Airport Finances**

### **Basis of Financial Operations**

The Airport's financial operations are governed by the provisions of the Senior and Subordinate Trust Agreements, which establish the various funds, flow of funds and the rate covenant, among their provisions. Operations are also a function of the airline-airport use and lease agreement (Airline Agreement), which lays out the financial obligations of both the airport and airlines and determines the airport's rate setting and cost recovery mechanism. The current agreement went into effect on October 1, 2010 for a five-year period, and in October 2013 the term of the Agreement was extended to September 30, 2020. The Agreement is characterized as employing a hybrid rate setting methodology, with a residual landing fee and compensatory terminal rental rate.

### **Airline Agreement**

Most domestic carriers serving TPA are signatories, as is all-cargo carrier FedEx. None of the foreign flag carriers are signatories. Airlines representing 80% of the enplaned passengers at TPA for fiscal year 2014 have executed the Airline Agreement, as amended on November 7, 2013. American Airlines has not yet executed the amended Agreement, but is expected to do so before the end of the current fiscal year. The Airline Agreement establishes cost and revenue centers that are used for purposes of accounting for revenues, operating expenditures, and investment. The cost and revenue centers include the airfield, terminal complex, commercial landside, cargo, general aviation, auxiliary airports, and other facilities. As has been stated previously, the airlines have very limited approval of capital projects. Signatory airlines are required to lease space throughout the term of the agreement, and provide a guarantee of the Authority's debt coverage requirement. In return, signatory airlines receive rebates of debt service coverage, and a 20% share of remaining surplus revenues (revenues less expenditures less operating reserve requirement less debt service). The 20% share of surplus revenues is reduced if the Authority's share falls below \$20 million. The signatory airlines share rises to 25% for any portion of surplus revenues in excess of \$37.5 million. Non signatory airlines do not participate in revenue sharing and do not receive any reimbursement for excess debt service coverage charges. Annual rates and charges are initially calculated based on the annual budget, and reviewed and adjusted as necessary throughout the fiscal year to ensure that sufficient revenues are generated to meet the requirements of the Trust Agreement.

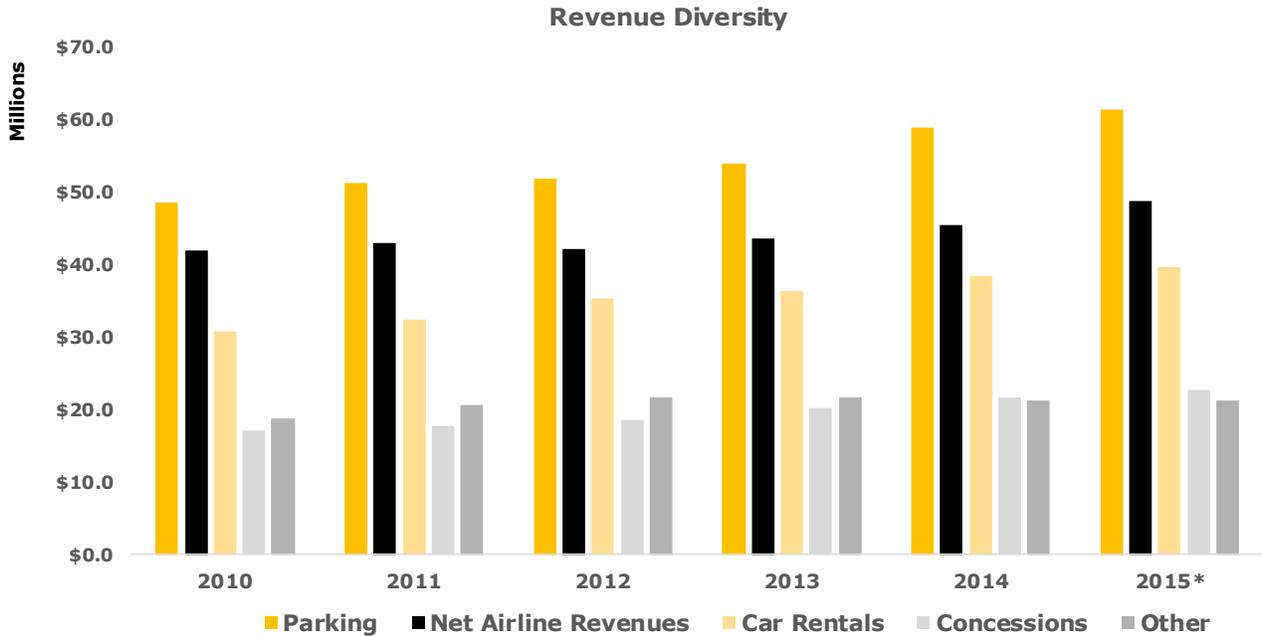
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<sup>2</sup> Based on KBRA's U.S. Airport Methodology Key Data Capital Planning Metrics and Ratios.

At the close of the fiscal year, the Authority recalculates rates and charges based on audited financial information to determine if there are any overages or underpayments.

**Historic Financial Performance**

The debt service coverage ratio has historically been in excess of the rate covenant of 1.25x. Senior Lien debt service coverage calculated pursuant to the indenture has increased from 1.38x in FY 2010 to 1.86x in FY 2014. Combined senior and subordinate lien debt service coverage was 1.71x in FY 2014. Favorable coverage levels reflect the strong performance of non-airport revenues and management’s efforts to maintain expenditure controls. This has had a positive impact on annual surpluses, with increased funds available for capital and reserves, and airline revenue sharing. This is noteworthy since enplanement growth had been very modest prior to the last 18 months. Airline revenues have been consistently in the 25% of total operating revenues range. Parking is the largest Authority non-airline revenue source, followed by car rentals and concessions. With new concession agreements that the Authority is entering into in the current fiscal year, along with expanded concession space, revenue growth of more than one-third is projected by fiscal 2018, when the program is fully up and running. Likewise, the new ConRAC facility is expected to generate additional car rental revenue, assisting TPA in continuing the trend on non-airline growth. Non-airline revenue performance has been strong, with a compound annual growth rate equaling 4.9% from FY 2010 to FY 2014, which KBRA views favorably. Non-Airline revenues are high when measured on a per-enplanement basis. They have consistently been above \$13.73 since FY 2010 and were \$16.07 in FY 2014. KBRA views the revenue diversity of the airport as positive credit factor.



Source: Hillsborough County Aviation Authority  
 Note: 2015\* is projected

**Passenger Airline Cost Per Enplanement (CPE)**

Airline costs at the Airport are in the low range, averaging \$5.10 per enplanement over the most recent five years. Despite the significant increase in GARB debt with the current financing, airline costs are not expected to rise considerably, as a declining debt service structure, and PFC support moderate the impact on CPE. Current and projected CPE levels are low when compared to enplaned passenger costs at peer airports.

## Stress Case

KBRA undertook a stress case to determine the impact on CPE based on event-related reductions in passenger activity similar to what was experienced following the events of 9/11 or the Great Recession. It was assumed that enplanements declined by 15% in 2016, which is more onerous than those event-related declines. This was followed by a 1.0% recovery annually through 2024. Non-airline revenues follow the same pattern under this scenario. Operating expenses increase at a 2.1% annual rate. We assumed \$371 million of additional debt, which represents the total cost of Phase II of the Capital Program, even though only about \$188 million of additional borrowing is anticipated. Under this scenario, the cost per enplanement rises to \$7.34 in 2024. While on a percentage basis, this represents a substantial increase, relative to peer airports, TPA's CPE would remain among the lowest.

<b>Hillsborough County Aviation Authority</b> <b>Financial Operations and Debt Service Coverage</b> <b>Fiscal Years Ending September 30</b>						
(\$ in thousands)	2010	2011	2012	2013	2014	2015 Budget
Airline Landing Fees (excluding Cargo)	11,833,000	13,055,000	13,081,000	13,715,000	14,145,000	14,910,900
Terminal Building Rentals	18,907,000	19,660,000	19,900,000	20,700,000	22,758,000	23,469,269
Airside Building Rentals	14,521,000	13,756,000	14,071,000	14,529,000	14,946,000	15,630,000
Other Airside Fees	1,668,000	2,582,000	2,392,000	2,907,000	3,104,000	3,220,179
<b>Total Airline Revenue</b>	<b>46,929,000</b>	<b>49,053,000</b>	<b>49,444,000</b>	<b>51,851,000</b>	<b>54,953,000</b>	<b>57,230,348</b>
Less: Revenue Sharing	4,919,000	6,164,000	7,059,000	7,494,000	9,012,000	8,939,785
Less: ASIP Program Fee Waivers	-	-	240,000	660,000	538,000	538,769
	4,919,000	6,164,000	7,299,000	8,154,000	9,550,000	9,478,554
<b>Net Airline Revenues</b>	<b>42,010,000</b>	<b>42,889,000</b>	<b>42,145,000</b>	<b>43,697,000</b>	<b>45,403,000</b>	<b>47,751,794</b>
Total Enplanements	8,334,885	8,382,883	8,441,087	8,493,260	8,673,747	8,750,298
<b>Airline Cost per Enplanement</b>	<b>5.04</b>	<b>5.12</b>	<b>4.99</b>	<b>5.14</b>	<b>5.23</b>	<b>5.46</b>
Total Revenue	164,557,000	174,067,000	179,082,000	186,189,000	201,310,000	204,088,348
Less: O&M Expenditures	88,981,000	91,159,000	93,103,000	96,956,000	103,367,000	107,854,899
O&M Reserve Requirement	(171,000)	499,000	(25,000)	732,000	563,000	789,022
Net Revenue before Transfer	75,747,000	82,409,000	86,004,000	88,501,000	97,380,000	95,444,428
Plus: PFC Revenue available for Senior Lien D/S and Coverage	33,253,000	37,983,000	36,480,000	35,604,000	9,749,000	9,234,266
Net Revenue Available for Senior Lien Debt Service	109,000,000	120,392,000	122,484,000	124,105,000	107,129,000	104,678,694
Total Senior Lien Bond Debt Service	78,919,000	81,240,000	80,419,000	79,550,000	57,626,000	57,009,335
<b>Senior Lien DSCR (1.25x)</b>	<b>1.38x</b>	<b>1.48x</b>	<b>1.52x</b>	<b>1.56x</b>	<b>1.86x</b>	<b>1.84x</b>
Plus: PFC Revenue available for Subordinated Lien D/S and Coverage	-	-	-	-	24,842,000	27,165,508
Net Revenue Available for Subordinated Lien Debt Service	30,081,000	39,152,000	42,065,000	44,555,000	74,345,000	74,835,167
Total Subordinated Lien D/S	-	-	-	-	19,674,000	21,580,681
<b>Subordinated Lien DSCR (1.25x)</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>3.78x</b>	<b>3.47x</b>
Net Revenue Available for Aggregate DS	-	-	-	-	131,971,000	131,844,502
Total Aggregated DS	-	-	-	-	77,300,000	78,590,016
<b>Aggregate DSCR (1.15x)</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>1.71x</b>	<b>1.68x</b>

## System Liquidity

The Airport has historically maintained substantial levels of unrestricted cash, which have grown in recent years. The Airport is required to hold approximately two months of operating expenses within an operating reserve. As of September 30, 2014, available funds were sufficient to cover 383 days of operating expenses. This is in line with the day's cash on hand amount equal to 381 days at the close of the previous fiscal year.

Based on KBRA's review of the documents governing the Airports financial operations and financial performance, KBRA has assigned a rating determinant rating of "AA".

## **Rating Determinant 6: Legal Mechanics and Security Provisions**

KBRA views the legal mechanics and security provisions as providing strong levels of bondholder protection. These provisions are set forth within Senior and Subordinated Trust Agreements pursuant to which the Authority issues debt. The airport utilizes a senior and subordinate lien structure. The Agreements clearly establish the priority of senior lien debt repayment but otherwise set forth very similar covenants and restrictions.

Governing documents establish a traditional net revenue pledge and rate covenant that is set at 1.25x annual debt service for senior lien bonds and subordinate lien bonds, with combined coverage of 1.15x for both liens. The documents also set forth restrictive additional bonds tests for both lien classes and establish senior and subordinate lien debt service reserve funds. The senior lien debt service reserve fund is required to hold an amount equal to maximum annual debt service (MADS), while the subordinate lien reserve is funded at the lesser of MADS, 1.25x average annual debt service, or 10% of bond proceeds.

### **Revenue Pledge, Senior and Subordinate**

The Airport's revenue bonds are issued pursuant to a senior and subordinate lien structure. Both classes of bonds are payable from net airport revenues, after operating expenses. Revenues are defined as all rates, fees, rentals or other charges or income received by the Airport. Subordinate lien Bond were first issued by the Authority in 2013. The definition of revenues available for debt service is being amended concurrently with the issuance of the Series 2015 bonds to exclude customer facility charges (CFC) from the definition of gross revenues. KBRA does not view this as a significant change as CFCs have only been collected since October 1, 2012, and revenues have not been used for general operations. CFCs will now be pledged to repayment of standalone ConRAC bonds that are expected to be issued in August 2015.

### **PFC Revenues and PFC Bonds**

Certain Series of Authority GARB Bonds are also secured by PFC revenues. This includes outstanding Series 2009A Airport Revenue Bonds, 2013A Subordinated Bonds, and the currently offered 2015AB Subordinated Bonds. The Series 2015 senior lien bonds do not have the additional PFC pledge. The Authority has no outstanding standalone PFC Bonds. The pledging of PFC revenues to specific bond issue repayment acts to lower required airline costs. The PFC revenues flow through both the senior and subordinate waterfall prior to being used for FAA-approved PAYGO purposes.

### **Rate Covenant**

The Senior Trust Agreement sets forth the following rate covenant: The Authority will fix, revise from time to time when necessary, maintain and collect fees, rates, rentals and other charges such that gross revenues will equal to: (1) all amounts to be deposited in the Reserve Fund, the Operation and Maintenance (O&M) Fund, and Operating Reserve Account in the Revenue Fund; (2) 1.25x debt service requirements. For purposes of complying with this requirement, the Authority may include Available PFC Revenues in an amount equal to not more than 1.25x principal and interest requirements on outstanding PFC Bonds. Monies remaining in the Surplus Fund at the end of any fiscal year may be re-deposited into the Revenue Fund in the subsequent year and applied to meet the 0.25x coverage portion of the rate covenant.

The Subordinated Trust Agreement rate covenant requires compliance with the Senior Trust Agreement rate covenant, and all deposit requirements under the Senior Trust Agreement. It also requires that Pledged Revenues (subordinated revenues, and to the extent pledged, subordinated PFC Revenues) equal at least 1.25x debt service requirements. The rate covenant also requires that subordinated revenues be sufficient to pay 1.25x debt service on Bonds which are not eligible to be paid from Subordinated PFC

revenues, and overall combined net revenues and pledged PFCs equal at least 1.15x combined debt service on Senior Bonds and Subordinated Bonds. Similar to the Senior Trust Agreement, the Authority may include moneys remaining in the surplus fund under the senior trust agreement at the end of the fiscal year to satisfy the 0.25x coverage portion of the subordinate lien rate covenant.

### **Additional Bonds Test**

The Senior Trust Agreement and Subordinated Trust Agreements both offer the option of complying with historical or prospective additional bonds tests (ABT), and closely mirror each other. Differences are that Senior historical test requires allows a 24 month period preceding bond issuance, while Subordinated test is 18 month period. Subordinated ABT also requires 1.15x combined coverage of Senior and Subordinated debt.

Senior Historical test requires a statement signed by an authorized officer of the Authority that the Authority's revenues for the latest audited fiscal year, within the 24 month period preceding bond issuance, were not less than the sum of all amounts required to be deposited in the O&M Fund, Reserve Fund, including in each case all accounts therein, and any funds required to be set aside for payment of subordinated debt, plus 1.25x maximum annual debt service in any succeeding fiscal year.

Alternatively, the prospective test requires a statement of the Airport Consultant that revenues from the airport system during the fiscal year in which such additional bonds are issued and each fiscal year thereafter through a period of review ((1) fifth anniversary of issuance of the additional bonds, or (2) third anniversary of later to occur of the scheduled completion date of the project, or the date on which capitalized interest has been exhausted) taking into account among other factors, increases in rates and charges, shall not be less than the sum of (i) all amounts required to be deposited into the O&M Fund and Reserve Fund, plus (2) 1.25x annual debt service, on outstanding and proposed bonds. Moneys remaining in the Surplus Fund at end of any fiscal year may be considered revenues in the fiscal year in which they are re-deposited provided that rates and charges under the rate covenant are sufficient to meet the 1.00x coverage requirement. Available PFC Revenues, so long as they are pledged as revenues under the Trust Agreement may be taken into account in determining compliance with the ABT. The amount of Available PFC Revenues included in determining compliance with the ABT is limited to 1.25x MADS on outstanding and proposed PFC Bonds.

### **Required Reserves**

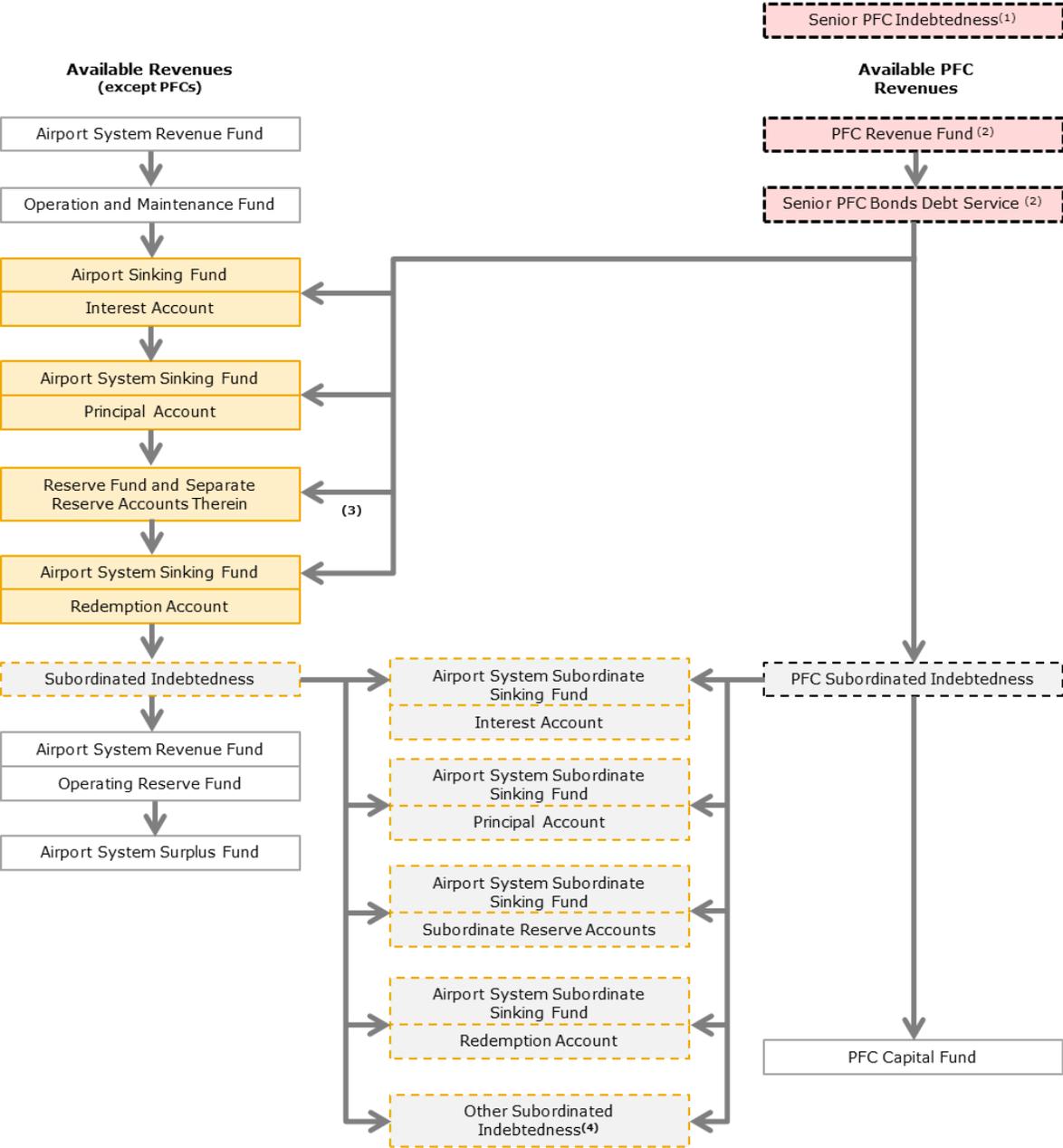
The Senior Trust Agreement sets forth the requirement for an operating reserve that is to be held at an amount equal to the minimum of one sixth of the annual operating budget. The order of priority for funding falls after payments on subordinated debt, and prior to deposits into the Surplus Fund.

### **Debt Service Reserve Fund Requirement**

The Senior Trust Agreement is set at MADS and the Subordinated Trust Agreement requirement is the lesser of MADS, average annual debt service, or 10% of the original amount of bond principal issued. The debt service reserve requirements at both levels provide strong levels of bondholder protections at their respective lien positions. With respect to any Series of Bonds for which a separate reserve account is established, the amount to be deposited into such reserve is as specified in the Senior or Subordinated Supplemental Trust Agreement.

**Flow of Funds**

**Flow of Funds**



1) No such debt is currently outstanding.  
 2) Available PFC Revenues are required to be deposited into the Interest Account, the Principal Account and the Redemption Account Under the Senior Trust Agreement in an amount equal to the monthly deposit requirements with respect to the PFC Bonds, and then the replenishment of any reserve account established for PFC Bonds, and then to the payment of debt service on PFC Subordinated Indebtedness.  
 3) To the extent required to fund deficiencies in the separate reserve accounts established in the Reserve Fund for a particular series of PFC Bonds.  
 4) The SunTrust Note has a third lien status.

## Summary of Major Legal Mechanics and Security Provisions

Hillsborough County Aviation Authority, Airport Revenue Bonds						
Airport Revenue Bond Trust Agreement	Revenue Pledge	Rate Covenant (no PFC)	Rate Covenant (PFC)	Additional Bonds Test	Debt Service Reserve Fund	Flow of Funds
Senior Lien	Net Airport System Revenue Pledge	1.25x Annual Senior Lien Debt Service. Surplus Revenues can be applied to satisfy test but rates must always equal 1.00x annual operating expenses and debt service	1.25x Annual Senior Lien Debt Service. Surplus Revenues can be applied to satisfy test but rates must always equal 1.00x annual operating expenses and debt service	Historic 1.25x coverage in 12 consecutive months of past 18, <b>OR</b> , Prospective 1.25x debt service coverage over minimum 5 year test period including revenue adjustments	Maximum Annual Debt Service	Closed Flow of Funds
Subordinate Lien	Net Airport System Revenue Pledge	1.25x Annual Subordinate Lien Debt Service. Same surplus rules as senior test	1.15x Annual Subordinate Lien Debt Service	Historic 1.25x coverage in 12 consecutive months of past 18, <b>OR</b> , Prospective 1.25x debt service coverage over minimum 5 year test period including revenue adjustments	The lesser of MADS, 125% of average annual debt service, or 10% of original principal amount.	Closed Flow of Funds

Source: The Hillsborough County Aviation Authority Airport Revenue Bond Trust Agreements and related issuing documents

### Amendment to the Senior and Subordinate Trust Agreements

Concurrently with the issuance of the Series 2015 bonds the Authority will effectuate a number of changes to the existing Senior and Subordinated Trust Agreements. The changes are incorporated into KBRA’s evaluation of the legal mechanics and security provisions.

### Subordinated Trust Agreement Changes

The Subordinated Trust Agreement is being amended to allow the Authority to withdraw any PFC application to impose or use designated PFC revenues for a designated PFC project and used to pay designated PFC bonds. This could have implications for the Series 2015A Subordinated Bonds. Prior to taking any such action, the Airport would be required to satisfy coverage tests, and receive rating agency acknowledgement that there would be no material impact on bond ratings or debt service coverage.

The airport is implementing this change as part of a larger strategy related to all PFCs collected by the airport. The Authority previously received authorization for nine prior FAA applications to impose an aggregate of \$828.9 million in PFC charges at the \$4.50 collection rate. Of that amount, the Authority has received approximately \$623.6 million as of March 31, 2015. Authority officials estimate that PFC collections will reach the authorized limit in 2021. The current application for the APM and Taxiway J Projects was approved by the FAA at a collection rate of \$3.00, instead of the requested \$4.50. Therefore, once the authorized limit is reached in 2021, the Authority would have to reduce the PFC collection rate to \$3.00 per enplaned passenger.

The Authority is exploring several potential strategies for addressing the reduction. One such strategy would be to withdraw the FAA application and commingle the projects contained in the application with future PFC projects that would hopefully be approved at the \$4.50 level. Another strategy would be to remove the pledge of PFC revenues from the application that was not approved at the \$4.50 level so as not to impact PFC approvals on future PFC projects. KBRA will continue to monitor this situation as the Authority continues to explore its options. Any changes in the security structure paying the bonds will be reviewed at the time it is effectuated by the Airport.

## Senior Trust Agreement Changes

The definition of gross revenues is being amended to exclude certain charges related to rental cars. The charges are referred to as Customer Facility Charges or CFCs. The Airport first implemented these charges in October of 2012 and received \$16.1 million in total CFC charges in 2014. Total CFC revenue amounts collected in 2013 was \$7.8 million. The increase was the result of an increase in the CFC charge to \$5.0 per day rental from \$2.50 per day rental. CFCs are being excluded from gross revenues so that they can be used to secure standalone ConRAC bonds that are expected to be issued in August 2015.

The Senior Trust Agreement prospective ABT is being amended to substitute the term "Bond Service Requirement" for "Maximum Bond Service Requirement" to limit debt service considered to the amount accrued during the forward looking period of review. Finally, the bondholder consent threshold needed to effectuate Senior Trust Agreement amendments is being reduced from two-thirds in aggregate principal amount of the outstanding Bonds to a majority in principal amount of bonds outstanding.

KBRA views the Airport's senior lien revenue bonds as being consistent with a "AA" Rating Determinant rating and the subordinated lien revenue bonds as being consistent with a "AA-" Rating Determinant rating. These ratings reflect the strong levels of bondholder protection set forth within the Senior and Subordinated Trust Agreements and the order of bond payment priority.

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**KBRA LONG-TERM RATING: AA- Senior/ A+ Subordinate**  
**OUTLOOK: Stable****Issuance**

\$176 million Revenue Bonds 2015 Series A (AMT), \$195 million Subordinated Revenue Bonds, 2015 Series A (AMT), and Subordinated Revenue Bonds, 2015 Series B (Non-AMT). KBRA's most recent rating report was published on [July 9, 2015](#).

**Security**

The Senior Bonds are payable from a pledge of net revenues derived from the operation of the Airport System, including TPA and three general aviation airports, and are secured on a parity basis with outstanding Bonds under the Senior Trust Agreement. The Senior Trust Agreement also provides for Bonds that are designated "PFC Bonds", which are additionally secured by and payable from "Available PFC Revenues", as defined in the Trust Agreement on a subordinate basis to any outstanding standalone PFC Bonds. The Senior 2015A Bonds are not PFC Bonds.

The Subordinated Bonds are payable from and secured by a lien on the Pledged Revenues derived by the Authority from the operation of the Airport System that are available for payment of subordinated indebtedness under the Senior Trust Agreement. The lien of the Subordinated 2015 Bonds on revenues is subordinate to the lien of all Senior Bonds. The Subordinated 2015 Bonds are additionally secured by Available PFC Revenues. The lien of these Bonds on the Available PFC Revenues is subordinate to all Senior bonds designated as PFC Bonds, and any standalone PFC indebtedness.

**Use of Proceeds**

2015 Bond proceeds will finance TPA's Main Terminal Transfer Level expansion, concessions redevelopment project, construction of a concessions consolidated warehouse, the Aviation Authority's (60%) portion of the Automated People Mover (APM), fund taxiway and bridge reconstruction, and South Terminal Support Area roadway improvements. Additionally, proceeds will be used to fund certain reserves accounts, capitalized interest on a portion of the 2015 Bonds, and the refinancing of a portion of the 2013A SunTrust note.

**Key Rating Strengths**

- Management has adopted a Capital Program that addresses current and future capacity issues, while affording flexibility if expected growth does not materialize.
- Air trade area population growth trends support demand for air transportation given the predominance of origin and destination (O&D) passenger traffic.
- Limited airline concentration and strictly O&D nature of activity confer stability.
- Debt metrics remain satisfactory despite sizable current bond issuance. Non-general airport revenue bond financing sources moderate impact on airlines and support debt service coverage margins.
- Well maintained financial operations with comfortable liquidity; financial flexibility conferred by ability to levy a 1.5 mil ad valorem tax, which based on current valuations would generate approximately \$97 million/year.

**Key Rating Concerns**

- Service area, with significant leisure component, is vulnerable to economic downturns, as evidenced by sharp enplanement declines due to the Great Recession.
- While management capability is viewed favorably by KBRA, certain policies and procedures are not comprehensively documented.

KBRA views the Authority's credit features, in combination, as providing favorable bondholder security. Management is highly competent, and has operated TPA in an effective manner that is recognized in a 2<sup>nd</sup> place ranking among North America airports, and a 5<sup>th</sup> place position among airports world-wide with 15-25 million in the ACI Airport Service

Quality Awards for 2014. The Authority's Capital Plan is both thoughtful and flexible as it addresses passenger and traffic congestion and capacity issues, while allowing for down-scaling if anticipated growth is less than forecast. Although KBRA views management as highly capable, in KBRA's view certain policies and procedures, including enterprise risk management, succession and business continuity, and debt, are not fully documented. TPA primarily serves the four-county Tampa-St. Petersburg-Clearwater Metropolitan Statistical Area, with a population in excess of 2.9 million residents, and is among the fastest growing metropolitan areas in the U.S. The Air Trade Area's economy includes tourism, agriculture, construction, finance, health care, government, technology, and the Port of Tampa. There is a significant leisure component, and the region has sizable numbers of secondary residences, both vacation properties and investment real estate, which affect travel demand. Tourism and cruise activity are important economic components, which also influence air travel demand. According to Authority officials, in 2012 leisure travelers represented approximately 76.4% of passengers, while those traveling on business accounted for 23.6%. TPA is served by a core group of airlines, with no one airline holding a dominant position. During fiscal year 2014 Southwest and Air Tran had a combined enplanement share of 35.3% (merger of Southwest and Air Tran finalized December 31, 2014), the highest of any carrier. The top three airlines accounted for 72.2% of enplanements. TPA is virtually all O&D, and international enplanements, while exhibiting some growth, still account for less than 3% of total enplanements.

In KBRA's opinion, the economic base of the TPA continues to recover from the Great Recession. The recessionary impact on the region was severe due to significant declines in home values. While home values have risen post-recession, they remain below pre-recession levels. Unemployment rates in the Air Trade Area have declined from almost 12% in 2010 to 5.7% in January 2015, and are now below the U.S. average. Service area personal income also rebounded, but at a slower rate than Florida or the nation as a whole, and remains below both the State and U.S. Enplanement activity growth had been relatively modest in recent years, following significant decline during the recession and its immediate aftermath. However, during 2014, the Airport recorded a year-over-year increase of 2.1%, and the first six months of 2015 show a 6.5% increase over the same 2014 period. Additional domestic routes have been established and seats added. Still, enplanement levels have not reached the peak level achieved in fiscal year 2007, when enplanements exceeded 9.6 million.

Despite the relative proximity of other airports; Orlando International (MCO) is 80 miles to the northeast, Fort Myers Southwest Florida International is 130 miles south, and Sarasota-Bradenton International, 50 miles to the south, KBRA does not believe there will be any significant passenger erosion at TPA. It is KBRA's view that the presence of low cost carriers at TPA, and established travel patterns, promote stability. KBRA does believe that the catchment area of these airports may limit the drawing area of TPA, and MCO with substantial international activity, may make it difficult for TPA to attract large scale international service.

The Authority is now embarking on a three-phase Capital Plan with a potential cost of as much as \$2.5 billion. Phase I projects, which are now being financed, include construction of an automated people mover (APM), expansion of the main terminal, construction of a warehouse to consolidate concession operations, taxiway and bridge reconstruction and roadway improvement, and building of a consolidated car rental facility (ConRAC). These projects are expected to be completed in 2018. Phase II projects enable the future expansion of the main terminal, and include demolition and replacement of the existing hotel and service building, employee parking garage and air traffic control tower relocation, and third maintenance hangar development. Anticipated completion of these projects is 2023. The final phase of the Master Plan will expand the Main Terminal through the creation of a new airside building with international and domestic gates, expansion of one of the existing airside, and additional increases in concession space. Phase III will be undertaken as passenger demand dictates. In KBRA's opinion, the ability to adapt the Capital Program to changes in forecast passenger demand is a strength.

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