MOODY'S
INVESTORS SERVICE

New Issue: Moody's upgrades Hillsborough County (FL) Aviation Authority to Aa3; outlook is stable

Global Credit Research - 01 Jul 2015

The authority has $551.3 million in debt outstanding

HILLSBOROUGH COUNTY AVIATION AUTHORITY, FL
Airports
FL

Moody's Rating

ISSUE		RATING
Tampa International Airport Revenue Bonds, Series 2015A (AMT)		Aa3
Sale Amount	$176,075,000	
Expected Sale Date	07/07/15	
Rating Description	Revenue: Government Enterprise	
Tampa International Airport Subordinated Revenue Bonds, 2015 Series A (AMT)		A1
Sale Amount	$22,845,000	
Expected Sale Date	07/07/15	
Rating Description	Revenue: Government Enterprise	
Tampa International Airport Subordinated Revenue Bonds, 2015 Series B (Non-AMT)		A1
Sale Amount	$172,200,000	
Expected Sale Date	07/07/15	
Rating Description	Revenue: Government Enterprise	

Moody's Outlook STA

NEW YORK, July 01, 2015 --Moody's Investors Service has upgraded the Hillsborough Country Aviation Authority senior lien revenue bonds to Aa3 from A1 and subordinate lien revenue bonds to A1 from A2. At this time we are also assigning a Aa3 rating to the Tampa International Airport Revenue Bonds Series 2015A ($176.1M) and an A1 rating to the Tampa International Airport Subordinate Revenue Bonds Series 2015A ($22.9M) and 2015B ($172.2M) bonds. The rating outlook for all bonds is stable.

SUMMARY RATING RATIONALE

The Aa3 rating is based on the airport's conservative management of a significant capital program. The airport is managing the implementation of a $2.6 billion master plan, during which financial metrics will improve with the debt service coverage ratio remaining above 2.0 times, while cost per enplanement will remain below $7.00. Phase 1 of the master plan will provide needed congestion relief at the airport's facilities, along with additional revenue from concessions and a consolidated rental car facility. Funding requirements for the projects in Phase 1 has been alleviated by a $194 million grant from Florida Department of Transportation, along with the use of debt supported by customer facility charges. The rating also considers the airport's diversified revenue stream, as airline-derived revenue accounts for about a quarter of the airport's revenue. The rating is limited by the moderate enplanement growth the airport has seen over the past few years, along with the competition for the area's air travel from Orlando International and St. Petersburg-Clearwater which offers increasing low-cost service from Allegiant Airlines.

The A1 rating is further based on the subordination in the flow of funds and slightly weaker legal protections compared to the senior lien. The subordinate lien has the additional pledge of subordinate passenger facility charges (PFCs).

OUTLOOK

The stable outlook is based on Moody's expectation that debt service coverage levels will remain in the projected ranges, above 2.0 times for the senior lien and above 1.75 for total debt, and the enplanement levels will remain stable or show positive growth.

WHAT COULD MAKE THE RATING GO UP

-Significant increase in enplanement levels

-Financial liquidity well above average

-Debt service coverage ratios sustained above 3.0 times on the senior lien and 2.0 times for total debt

WHAT COULD MAKE THE RATING GO DOWN

-Lower than projected levels of debt service coverage at or below 2.0 times on the senior lien or below 1.5 times for total debt

-Declining enplanements demonstrating weaker market position

-Construction cost overruns resulting in increased indebtedness

STRENGTHS

-Diverse carrier group provides stable, low-cost service

-Flexible, demand-driven capital program and low current debt will allow the airport to build for future growth while improving debt service coverage levels

-Ability to levy ad valorem tax in Hillsborough County (about $97 million annually)

CHALLENGES

-Significant future leverage may pressure the enterprise's financial flexibility

-Local economic volatility has caused enplanements to be more volatile

-Financial liquidity remains below median levels for Moody's rated airports

RECENT DEVELOPMENTS

HCAA is benefitting directly from a long period of strong, conservative management and long-term capital planning. Tampa International Airport is at the beginning of a capital program that will transform the airport and leave the airport's finances in a position as strong as it has ever been. The long-term vision moved along by multiple management teams will allow the HCAA to complete the capital program while increasing debt service coverage to over 2.10 times on the senior lien and to maintain coverage above 1.9 times or better on all debt after 2015. Reasonable projections for passenger growth will allow this to be accomplished with only a minimal increase in real airline cost per enplanement (CPE). Airport projections include passenger growth of 7.0% in FY2015, 2.8% in FY2016, 2.2% in FY 2017 and 2.0% annually through 2024 and lead to CPE that peaks at $6.28 in 2023. These projections include debt planned for Phases I and Phase II issued through 2020.

DETAILED RATING RATIONALE

REVENUE GENERATING BASE

We note that enplanement volatility is one key risk to meeting the forecast; however, the strength of the financial metrics would keep them comparable to peers in the rating category even if actual traffic deviated from the forecast. All signs indicate that the airport will outperform the forecast in the near term. The local economy is expected to sustain a recovery that is in line with the rest of the nation. Solid growth in the tourism and leisure industries will be offset by a stagnant high-wage job market. The area has experienced slack in hiring in high-income jobs, such as finance and professional services. Growth in the tourism and leisure industries, will help the area's economy in the short term. Over the next few years, it is expected that high-wage job growth, coupled with strong in-migration trends, will help the area to begin to experience economic expansion. As a result of the local area's economic performance, demand for air service at the airport is expected to continue to grow.

Tampa's enplanements are more volatile due to the leisure and low-wage jobs components of the economy and declined 2.9% in FY2008 and 8.5% in 2009 compared to sector medians of an increase of 2.3% and a decrease of 8.7% in those years, respectively.

Airline diversity and the partnership between the airport and airlines has also been a long-term credit strength. The airport recently negotiated a five-year extension to the airline use and lease agreement that was created in 2010. The agreement runs through 2020 and is compensatory in nature but includes revenue sharing components that protects the airport from revenue declines and provides greater revenue sharing when revenue is strong.

Capital expenditures relating to new development, planning or expansion projects in certain cost centers with a net project cost in excess of $10 million are the only expenditures requiring a majority in interest of airlines ("MII") approval under the airline agreement. Only two projects in the 2015 Projects require MII approval from the airlines, the Taxiway J and Bridge Reconstruction and the Main Terminal Transfer Level Expansion and Concession Redevelopment. Approval for these two projects was received from the airlines in 2014, demonstrating the airline's support for the authority's capital plan.

FINANCIAL OPERATIONS AND POSITION

The HCAA has worked hard to reinforce its financial position following the economic downturn. Operating revenues have increased 25.8% since 2010, boosted by non-aeronautical revenues which have experienced a compound annual growth rate of 5.9% since 2010. Operating expense control has led to only a 19.9% increase in operating expenses since 2010. As a result, Moody's net revenue debt service coverage has increased from 1.20 times in 2010 to 1.43 times in 2014.

Liquidity

HCAA's financial liquidity remains solid at 444 days cash on hand.

DEBT AND OTHER LIABILITIES

HCAA has a very conservative debt structure, which consists of only fixed rate bonds, no financial derivative contracts, and a declining debt service profile.

Debt Structure

HCAA's manageable debt service schedule is due to the combination of efforts from previous management and the current management team. With a view toward large capital needs, previous management had developed a debt service profile that allowed for significant additional debt without having to escalate annual requirements. The current management team has developed a complementary capital program that addresses the airport's needs in the current industry environment. Current management has also diligently enhanced revenues and developed new air service. HCAA's profile benefits from a number of aspects that have remained constant for over a long-period of time: conservative fixed-rate debt, low airline costs, and strong relationships with the airlines and other stakeholders.

The capital program is a $2.5 billion multi-phase program that is planned to run through 2024. Phase I is well underway with projects that are required due to current activity or will be required to enable projects in Phases II and III. Phase III is governed by reaching certain international operations triggers. Phase I ($971.8 million budget) includes the construction of a consolidated rental car facility (CONRAC), which will be financed by a separate security of Customer Facility Charge (CFC) debt; a 1.4 mile automated people mover (APM, 40% funded by CFC-backed debt) that will connect the CONRAC and the economy parking garage to the main terminal; expansion and reconfiguration of the main terminal and airside areas to create additional concession space; and roadway improvements in the area around the CONRAC to prepare for additional commercial development. The separate CFC bonds are expected to be issued in August 2015.

Phase II preliminary planning is underway and the HCAA anticipates issuing an aggregate amount of $231 million of senior general airport revenue bonds (GARBs) in 2017 and 2020. Phase II is expected to include projects that will allow for future expansion of the main terminal as passenger demand dictates. These projects include hotel and service building replacement, air traffic control tower relocation, and an employee parking structure near the CONRAC. The authority anticipates that these projects will be completed in 2023 and may include some private/public partnership funding.

Phase III is not expected to begin until the airport has service from five international wide-body aircraft on the ground at the same time, which management is planning for approximately 2024. However the timing remains highly uncertain at this point and could be delayed significantly if management finds other ways to manage higher international passenger flow. The amount for the projects in Phase III along with the sources of the funds for the phase are still undetermined, though the largest project will be construction of a new satellite airside D for additional international and domestic gates and build a combined security checkpoint for satellite airsides C and D.

Construction risk is a key credit risk during the program. The HCAA has taken significant steps to limit construction cost overruns in Phase I. At this point, approximately $380.5 million or 39.9% of the Phase I project spending has been committed with all but $25.7 million not under a guaranteed maximum price contract. The timing and approach to Phases II and III will be important in maintaining the airport's credit strength, but there is no indication that management intends to abandon the long-term conservative approach that has brought the current credit resiliency.

HCAA's ability to secure grants from the Florida Department of Transportation and use of separate CFC bonds has reduced GARBs needed by $220 million from the $900 million contemplated in the 2012 Master Plan. The subordinate lien bonds also benefit from a pledge of PFC collections. The HCAA's PFC application #10 was approved to support the funding of the APM and the Taxiway J projects; however, it was only approved at the $3.00 rate as the FAA was unable to clearly determine the APM would reduce airport roadway congestion. If this ruling stands, the HCAA will only be able to collect PFCs at the $3.00 from approximately 2021 until the authority collects the full amount of the application #10 authorization.

Management is developing several options to address this, which could include co-mingling the application with planned large PFC application #12 as part of the Phase III financing. If application #12 is approved at the $4.50 rate and represents more than 33% of the combined funding for both PFC applications the authority will be able to continue collecting at the $4.50. We expect this will happen and HCAA will continue to collect at the $4.50 rate. If this does not occur the HCAA may remove the pledge of PFCs from the Subordinate 2015 bonds or refund or defease the 2015 bonds with bonds that do not bear the PFC pledge. These actions would allow the authority to withdraw the application #10 approval or the projects in that application that cause it to only qualify at the $3.00 rate.

RATED DEBT (as of September 30, 2014):

Senior Airport Revenue Bonds, $394.6 million - Aa3

Subordinate Revenue Refunding Bonds, 2013 Series A, $156.7 million - A1

Debt-Related Derivatives

None.

Pensions and OPEB

Moody's fiscal 2014 adjusted net pension liability (ANPL) for the authority, under our methodology for adjusting reported pension data, is $135.6 million, or 0.70 times operating revenues. ANPL has historically been below one year of operating revenue, with a three year average ANPL of 0.82 times operating revenue. This ANPL represents a sizable liability, but it would be manageable without significant impact on the authority's credit strength.

MANAGEMENT AND GOVERNANCE

HCAA is overseen by the authority board, which consists of five members, three residents of the County appointed to the authority by the Governor of the State of Florida for four year terms; the Mayor of the City of Tampa, Florida, ex officio; and a Commissioner of (and selected by) the Board of County Commissioners of the County, ex officio.

OTHER CONSIDERATIONS: MAPPING TO THE GRID

The rating outcome differs from the scorecard outcome because the financial metrics will improve substantially over the coming years and the preponderance of debt will shift to the subordinate lien, both of which will alter the outcome of the scorecard.

The grid is a reference tool that can be used to approximate credit profiles in the airport industry in most cases. However, the grid is a summary that does not include every rating consideration. Please see Airports with Unregulated Rate-setting rating methodology for more information about the limitations inherent to grids.

METHODOLOGY SCORECARD FACTORS:

Factor 1 - Market Position- Total Enplanements: Aa, 8.67 million

Factor 1 - Market Position- Size of Service Area: Aa, 2.96 million

Factor 1 - Market Position- Economic Strength/Diversity of Area: A

Factor 1 - Market Position- Competition for Travel: Baa

Factor 2 - Service Offering- Carrier Base (Primary): A, 30.9%

Factor 2 - Service Offering- Enplanement 5-year CAGR: Baa, 0.3%

Factor 2 - Service Offering- O&D Passenger Mix: Aa, 89.0%

Factor 3 - Capacity and Capital- Growth & Operational Restrictions: Baa

Factor 3 - Capacity and Capital- Construction Risk: A

Factor 4 - Financial Metrics - Airline Cost per Enplanement: Aa, $5.23

Factor 4 - Financial Metrics - Debt Service Coverage: A, 1.43x

Factor 4 - Financial Metrics - Debt per O&D Passenger: A, $62.96

Notching: 0 Notch Change for Liquidity; 0 Notch Increase for Revenue Diversity

Scorecard Indicated Rating: A2

KEY STATISTICS

Type of Airport: O&D

Rate methodology: Hybrid

FY2014 Enplanements: 8,673,749

5-Year Enplanement CAGR 2009-2014: 0.3%

FY 2015 vs. FY 2014 YTD Enplanement growth: 6.5%

FY 2014 vs. FY 2013 Enplanement growth: 2.1%

% O&D vs. Connecting, FY 2014 (5 YR AVG): 89.0% (89.2%)

Largest Carrier by Enplanements (share): Southwest (30.9%)

Airline Cost per Enplaned Passenger, FY 2014 (5 YR AVG): $5.23 ($5.10)

Debt per Enplaned Passenger, FY 2014 (5 YR AVG): $62.96 ($69.22)

Bond Ordinance Debt Service Coverage, FY 2014 (5 YR AVG): 1.71x (1.53x)

Utilization Factor, FY 2014 (5 YR AVG): 2.67x (2.66x)

OBLIGOR PROFILE

The authority is a public body corporate and is an independent special district. The authority has exclusive jurisdiction, control, supervision and management over all publicly owned airports in Hillsborough County, Florida. The airport system consists of Tampa International Airport Peter O. Knight Airport, Plant City Airport and Tampa Executive Airport. The latter three are general aviation airports which serve as reliever airports. Tampa

International airport has a single main terminal with four airside concourses that total 59 aircraft gates and three runways including two parallel runways and one crosswind runway.

LEGAL SECURITY

The bonds are secured by the net revenues of the authority. Only bonds designated as PFC Bonds are secured by and payable from PFC revenues; these include the senior lien 2009 Series A bonds and the subordinated 2015 A&B bonds. Subordinated bonds are subordinate to the senior bonds in both the flow of general airport revenue and PFC revenue. Senior bonds, with the exception of Series 2009A, 2013A, 2013B, 2013C, all share a common debt service reserve fund, which is cash funded and sized at maximum annual debt service. The remaining senior bonds have separate reserve accounts specific to each series. Subordinated bonds Series 2013A, Series 2015A, and Series 2015 B are designated as PFC bonds and are additionally secured by the available PFC revenue. These bonds are secured by a cash funded debt service reserve fund equal to annual average debt service.

USE OF PROCEEDS

The $176.1 million 2015A senior lien bonds will be used to pay for certain capital projects including main terminal expansion, concessions redevelopment, concessions warehouse, and partial payment of the automated people mover. The $195.0 million Series 2015A and B subordinate lien bonds will be used mainly to fund the APM project, but will also be used for Taxiway J reconstruction, and the South Development Area Roadway.

RATING METHODOLOGY

The principal methodology used in this rating was Airports with Unregulated Rate Setting published in July 2011. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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Analysts

Kurt Krummenacker
Lead Analyst
Public Finance Group
Moody's Investors Service

Chee Mee Hu
MANAGING_DIRECTOR
Public Finance Group
Moody's Investors Service

Maria Matesanz
Additional Contact
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA

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