

New Issue: Moody's assigns A3 to Hillsborough County (FL) Aviation Authority's Tampa International Airport CFC revenue bonds; Outlook is stable

Global Credit Research - 23 Jul 2015

Initial rating on approximately \$399.5 million of CFC-backed debt

HILLSBOROUGH COUNTY AVIATION AUTHORITY, FL - CONRAC PROJECT
Airports
FL

Moody's Rating

ISSUE		RATING
Tampa International Airport Customer Facility Charge Revenue Bonds, 2015 Series A (Non-AMT)		A3
Sale Amount	\$101,065,000	
Expected Sale Date	08/05/15	
Rating Description	Revenue: Government Enterprise	
Tampa International Airport Customer Facility Charge Revenue Bonds, 2015 Series B (Taxable)		A3
Sale Amount	\$298,430,000	
Expected Sale Date	08/05/15	
Rating Description	Revenue: Government Enterprise	

Moody's Outlook STA

NEW YORK, July 23, 2015 --Moody's Investors Service has assigned an A3 rating on the Hillsborough County Aviation Authority's (HCAA) Tampa International Airport Customer Facility Charge (CFC) Revenue Bonds 2015 Series A and Series B being issued in the amounts of \$101.065 million and \$298.43 million, respectively. The outlook is stable.

SUMMARY RATING RATIONALE

The A3 rating on the CFC backed bonds is based on the fundamental strength of the airport's service area, the limited debt relative to forecasted financial resources, and management's strong planning and risk mitigation of construction of the consolidated rental car (CONRAC) facility and automated people mover (APM). Construction risk is mitigated by design completion, construction that is underway, and guaranteed maximum price contracts in place with all constructors. Higher than average volatility of enplanements in the recent economic downturn and the construction of the APM bring elements of risk that are not present at other CONRAC facilities.

There are strong protection features including a rate covenant that requires 125% coverage with annual collections or 150% coverage with the use of rolling coverage and the ability to charge a deficiency payment to rental car companies, on a joint and several basis, in the event CFC collections fall short of debt service requirements. The CFC rate of \$5.95 is at a moderate level with room for increase, which can be done unilaterally by the HCAA board with changes taking effect in about 45 days. There is also adequate liquidity in the form of rolling coverage, surplus, and repair and replacement (R&R) funds to be funded at substantial completion. The rating also incorporates the limited history of CFC collections at the airport.

OUTLOOK

The stable outlook reflects the expectation that transaction days will remain at current or higher levels, construction will remain on budget with the facilities opening as expected in October 2017 and there will be no major deterioration of the rental car market.

WHAT COULD MAKE THE RATING GO UP

- Successful construction of both facilities on-time and on-budget
- Debt service coverage without rolling coverage exceeds 2.0 times on a consistent basis
- Transaction days demonstrate stronger growth or stability than expected

WHAT COULD MAKE THE RATING GO DOWN

- Construction cost overruns that result in the issuance of additional CFC-backed debt or lower post construction liquidity in the CFC R&R, Deficiency Reserve, and Surplus funds to below \$30 million
- Lower than projected CFC collections that result in debt service coverage without rolling coverage falling below 1.40x

STRENGTHS

- Large, highly rated, and growing service area provides a stable base for origin and destination operations
- Car rental agreements are in place, cover a thirty year term, may be renegotiated every 10 years at HCAA's discretion, and require the companies to make deficiency payments in the event CFC collections fall short of requirements and cannot be covered by the Deficiency Reserve Account
- Debt service coverage, without the use of rolling coverage is projected to remain at 1.6x or above, in line with most Moody's CFC-backed bonds
- Debt service profile for the bonds primarily flat and benefits from interest only during the first four years and 2014 CFCs are sufficient to cover annual debt service
- Higher rate covenant will allow for pre-funding of future expansion or improvement projects
- No forecasted increases in CFC rate of \$5.95, which pay debt service and will allow for pre-funding of future expansion or improvement projects

CHALLENGES

- Construction risk is higher than most CONRAC facilities given the need to construct and operate an APM; however, the CFC structure is only responsible for 40% of the APM costs
- Nearby Orlando International Airport is the largest rental car market and challenges Tampa's market position; but competitive position is stable
- Lack of significant historical observable trends in CFC collections and car rental transaction days given airport's recent reinstatement of CFC collections in 2011
- Projected enplanement growth rate of 2.1% is higher than most recent ten-year average of 0.2%

RECENT DEVELOPMENTS

The airport is seeing strong activity growth in 2015 with enplanements up 6.5% year to date through May and transactions days up 5.3% through June. Project construction has begun with site prep work for the CONRAC facility on-going, construction of the rental car service centers underway, and preparatory projects for the APM right-of-way progressing on-schedule.

Total project cost is expected to be \$323.5 million for the CONRAC and \$412.84 million for the APM. The CFC debt is limited as the project has a variety of other funding sources, including \$178.6 million from Florida DOT grants and \$135.2 million from PFC-supported general airport revenue bonds.

DETAILED RATING RATIONALE

REVENUE GENERATING BASE

The rental car market in Tampa is solid, but collections may be more volatile than at some other facilities given past enplanement trends. Transaction days totaled 7.18 million in 2014, which ranks second to Orlando among

airport CONRAC facilities with CFC-backed debt. Transaction days have only been tracked since 2011, but have risen steadily with a 4.7% CAGR since 2012. The airport's 0.93 transactions per O&D passenger is by far the highest among Moody's rated CFC-backed transactions indicating strong rental car demand. Transaction and CFC collection history is limited given CFC collections only began in 2011. However, based on the experience at other CONRAC facilities, we would expect transaction days to generally track changes in enplanement levels, but with greater magnitude in either direction.

The CFC rate at \$5.95 is moderate compared to other airports and can be adjusted unilaterally by the HCAA Board with rates taking effect in as little as 45 days. The CFC rate was increased to \$5.95 on July 6, 2015. The CFC rate was initially \$2.50 in October 2011, but was raised to \$5.00 on April 1, 2014. The current plan of finance anticipates no increases in the CFC as the current projections demonstrate strong debt service coverage of at least 1.60 times, which should allow for the build-up of large amounts of liquidity. At \$5.95, the CFC is near the mid-point among the 15 Moody's rated CONRAC transactions.

HCAA has entered into a concession agreement with nine rental car companies that is favorable to the bondholder. The agreement has a 30-year term that began on June 4, 2015, but HCAA has the ability to renegotiate the terms every 10 years. The on-airport rental car companies agree to pay the CFC to HCAA, regardless of whether they collect it from their customers, and agree to pay deficiency payments if CFC collections fall short of required collections as described below in the Legal Security section. Off-airport rental car companies that serve the airport are required to pay a transportation facility charge (TFC) of \$2.00. There are currently only two small operators that are expected to operate in this fashion once the facility is complete.

FINANCIAL OPERATIONS AND POSITION

Debt service coverage is expected to remain above average. Based on projections of 2.1% annual enplanement growth, debt service coverage without the benefit of rolling coverage from the surplus fund should remain above 1.60 times. While we believe the historical volatility of enplanements could cause coverage to fall below 1.60 times for a short period, we expect coverage to remain closer to 2.0 times in most years as a result of the level debt service profile. Based on the airport's sensitivity analysis of a 10% enplanement drop in the opening year of 2018, debt service coverage would remain above 1.40 times without the benefit of rolling coverage.

The project has average leverage with a debt to transaction day ratio of \$55 based on FY2014 transaction days. This compares to \$59 at San Diego International Airport, \$61 at San Antonio International Airport, and \$69 at Austin-Bergstrom International Airport which are the highest levered in the A3 rating category. Despite this leverage, the structure will allow HCAA to build up ample liquidity over time to pre-fund future improvements or expansion projects and will provide the bondholders solid protection from downturns in CFC collections.

Liquidity

The CFC bonds will have liquidity stronger than other CFC-backed financings if construction is completed as expected; however, cost overruns in construction could reduce this liquidity and could result in below average liquidity. The bondholder will benefit from a debt service reserve fund of maximum annual debt service or approximately \$29.8 million in cash paid from bond proceeds. The bonds will also fund approximately \$5.7 million in deposits to the CFC surplus fund for rolling coverage. The structure allows for up to \$30 million in additional liquidity, if available, at the end of the construction period. The first \$10 million remaining will initially fund the CFC Renewal and Replacement Fund that will be part of the flow of funds and continue to receive deposits. The second \$10 million will fund a one-time Deficiency Reserve Fund, that will be used by the HCAA prior to charging Deficiency Payments from the rental car companies. The renewal and replacement fund and the deficiency reserve fund will be funded at substantial completion, which is weaker than other financings that fund reserves at bond closing. The remaining funds will be deposited in the CFC Surplus Account for future needs of the system.

DEBT AND OTHER LIABILITIES

Construction risk is the highest concern to the credit in the near term; however, HCAA has taken a number of key steps to reduce the likelihood of construction cost increases. Construction of both the CONRAC and the APM have been set in GMP contracts with Austin Commercial. These price-certain, date-certain contracts transfer much of the construction risk to the contractors, though the projects have been fully designed and approved by the FAA. HCAA retains the risk of unknown subsurface conditions and any scope changes that come about in the project, though the HCAA has already conducted soil condition samples and has moved existing utilities out of the project right-of-way. The project also benefits from the fact that timely construction is not a requirement for revenue generation, so project delays will only have a cost impact no revenue impact. Mitsubishi Heavy Industries America, Inc. was awarded a two-phase Design Build Operate Maintain contract for the manufacture of the APM

vehicles and the operation and maintenance of those vehicles once the system is complete.

The construction risk is focused on the APM, as the CONRAC facility is a straightforward, simple 3-level garage design and the site is remote from the main terminal operations area and is already under construction. The APM construction has the added complexity of being a linear construction project alongside the airport's critical roadway and construction must weave through several operating areas including the terminal and a taxiway. This project has not begun and construction must wait for the completion of preparatory projects such as the re-construction of a taxiway bridge that the APM will pass under. The APM will also require the delivery and extensive system testing of the rolling stock. The CFC bonds will only fund 40% of the APM and the remaining 60% of the APM will be paid from general airport revenues. Any cost overruns on the APM project would be split in a similar way, so the CFC bonds are responsible for only 40% of the APM project construction risk, but 100% of the CONRAC garage project construction risk.

Debt Structure

The CFC revenue stream has a conservative debt structure with a flat amortization schedule following four years of interest only payments and fixed interest rates. There is no period of capitalized interest and no additional debt is anticipated in the foreseeable future.

Debt-Related Derivatives

None

Pensions and OPEB

The financial impact of unfunded and OPEB obligations of this issuer are minor and thus not currently a major factor in our assessment of its credit profile.

MANAGEMENT AND GOVERNANCE

The 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.

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%)

Initial CFC rate: \$5.95

Transaction Days, FY 2014: 7.177 million

FY 2013 vs. FY 2014 Transaction Day growth: 8.1%

FY 2014YTD vs. FY 2015YTD Transaction Day growth: 5.3%

CFC Bond Ordinance Debt Service Coverage, projected FY 2019: 1.60x

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 on-airport CFCs, off-airport TFCs, and payments from the rental car company concessionaires as deficiency payments to cover mandatory eligible costs of debt service, 40% of the annual O&M costs of the APM, amounts necessary for the R&R fund, and any other deposits required by the CFC trust indenture. The CFC bonds will also benefit from a debt service reserve funded at the maximum amount of annual debt service (approximately \$29.8 million) and initially from \$5.7 million of rolling coverage funds in the CFC Surplus Fund.

A rate covenant of 1.25x will be in place ensuring that CFC collections are sufficient to cover debt service, with the ability to use rolling coverage from the surplus account for an additional 25% of debt service to a total 1.50 times. If CFC collections fall short of mandatory eligible costs, the HCAA has the ability to charge deficiency payments to the rental car companies pro-rata and on a joint and several basis in order to fund the difference between collection and mandatory eligible costs.

USE OF PROCEEDS

Proceeds from the 2015A CFC Bonds will be used to finance a portion (approximately 40%) of the APM construction, to make a deposit into the common debt service reserve fund and pay certain costs of issuance.

Proceeds from the 2015B CFC Bonds will be used to finance a portion of the CONRAC construction, to make a deposit into the common debt service reserve fund, and pay certain costs of issuance.

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PRINCIPAL 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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