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Ratings

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Summary:

Hillsborough County Aviation Authority, Florida
Tampa International Airport; Airport

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Long Term Rating	A+/Negative	Downgraded, Removed from CreditWatch
Hillsborough Cnty Aviation Auth (Tampa International Airport) arpt		
Long Term Rating	A/Negative	Downgraded, Removed from CreditWatch

Rating Action

S&P Global Ratings lowered its long-term rating and underlying rating (SPUR) to 'A+' from 'AA-' on Hillsborough County Aviation Authority (HCAA), Fla.'s outstanding senior-lien revenue bonds and to 'A' from 'A+' on the authority's 's subordinate-lien revenue bonds, both issued for Tampa International Airport (TPA). At the same time, we removed the ratings from CreditWatch, where they had been placed with negative implications on Aug. 7, 2020. The outlook on the long-term ratings is negative.

The ratings on TPA's bonds, along with many other U.S. airport ratings, were previously placed on CreditWatch to reflect the material negative impact of the COVID-19 pandemic on traffic levels, expected financial performance metrics, and overall credit quality. For more information, see "U.S. Airport Ratings Placed On CreditWatch Negative On Severe Passenger Declines And Weakening Credit Metrics," published Aug. 7, 2020, on RatingsDirect.

A pledge of the net revenues of the airport system, which consists of TPA and three general reliever aviation airports, Peter O. Knight Airport, Plant City Airport, and Tampa Executive Airport, secures the bonds. Most of the net revenues come from TPA. A junior pledge of the airport system's net revenues secures the subordinate bonds. Available passenger facility charge (PFC) revenues secure the subordinate bonds. Under the senior and junior indentures, the HCAA can include PFC collections to meet the rate covenant and additional bonds tests for bonds issued to finance PFC-eligible projects, and it has done so for the subordinated bonds. If needed, the authority has access to debt service reserves (DSRs) for the senior-lien general airport revenue bonds (GARBs) and for the subordinate-lien GARBs. The combined DSR for the senior-lien and subordinate-lien GARBs totals approximately $130.7 million, all of which is cash funded. With the severe decline in passenger traffic attributable to the COVID-19 pandemic, management anticipates no draws from the DSRs to make required debt service payments at this time.

As of Sept. 1, 2020, the airport has approximately $1.5 billion in debt outstanding, consisting of $694 billion of senior-lien bonds, $397 million in subordinate-lien bonds, and $375 million of customer facility charge (CFC) revenue bonds. The CFC bonds are a separate credit.

Credit overview

The rating action and negative outlook reflect our expectation that activity levels at the airport system will be materially depressed or unpredictable, or demonstrate anemic growth due to the COVID-19 pandemic and associated effects that are out of management's control. In our view, the severe drop in demand has diminished TPA's overall credit quality and will likely pressure financial metrics relative to historical levels in the next several years. We view this precipitous decline not as a temporary disruption with a relative rapid recovery, but as a backdrop for what we believe will be a period of sluggish air travel demand that could extend beyond our rating outlook horizon.

TPA entered the pandemic operationally and financially strong, with combined total enplanements near an all-time peak of 11.8 million, strong debt service coverage (DSC) levels, and strong overall liquidity levels. However, combined enplanement levels are projected to be down 43% in fiscal 2020 (Sept. 30 year-end) compared with fiscal 2019 and down approximately 67% for the month of August year over year. The fiscal 2021 budget for TPA is based on a passenger-recovery scenario of 29% of fiscal 2019 levels, which matches our baseline activity level estimates. Consequently, we believe a lot of uncertainty exists regarding the trajectory of a recovery in aviation activity, complicating financial planning and increasing operational challenges. For additional information, see "This Time Is Different: An Anemic And Uncertain Passenger Recovery Will Challenge U.S. Airports' Credit Quality, " published Aug. 7, 2020, and "Activity Estimates For U.S. Transportation Infrastructure Show Public Transit And Airports Most Vulnerable To Near-Term Rating Pressure," published June 4, 2020.

The long-term rating reflects the airport's strong enterprise risk profile and strong financial risk profile as well as a positive holistic adjustment to accurately reflect the airport's creditworthiness given its history of maintaining a relatively low airline cost structure, as measured by cost per enplanement, which is expected to rise given the current drop in enplanements but still remain low compared to the industry; strong air carrier diversity; and management's ability to manage its large and ongoing capital plans, as evidenced by its current flexibility to defer phase 3 of its master plan by four years at a cost of $690 million.

Our forward-looking view resulted from a weakening of TPA's market position assessment, which in turn influenced our decision to lower our enterprise risk profile assessment to strong from very strong. Under our criteria, market position is a primary credit factor that incorporates activity level trends, passenger volatility, rate-setting flexibility, and additional considerations outside the operator's control, including health scares. Within our overall enterprise risk profile, the market position assessment is the highest weighted factor (60%), followed by industry risk (20%), economic fundamentals (10%), and management and governance (10%). Within our overall financial risk profile, we consider such factors as financial performance (55%), debt and liabilities capacity (35%), and liquidity and financial flexibility (10%). For additional information regarding our criteria, see "U.S. And Canadian Not-For-Profit Transportation Infrastructure Enterprises: Methodologies And Assumptions," published March 12, 2018.

Our revised market position assessment for TPA results in a lower, but still strong, enterprise risk profile. This reflects our view of the airport's historically large and strong demand base consisting of primarily origin-and-destination passengers in an economically strong and growing service area.

Our overall financial risk profile is unchanged at strong, as we continue to evaluate management's strategy as well as the shape of the traffic recovery along with the expected impact of the passenger decrease on financial metrics. Our financial risk profile incorporates the system's historically strong financial performance, with DSC (S&P Global Ratings-calculated) at or above 1.5x for fiscal years 2017-2019; debt-to-net revenues at or near 8x, tempered by a large capital improvement plan (CIP) that requires additional debt; and strong liquidity and financial flexibility (with days' cash on hand no lower than 280 and an available liquidity-to-debt ratio at no lower than approximately 15% for fiscal years 2017-2019).

We anticipate financial performance (DSC) in fiscal years 2020 and 2021, however, will be lower than in recent years. Existing liquidity in concert with various mitigation measures taken thus far to reduce outlays, and the $81 million in Coronavirus Aid, Recovery, and Economic Security (CARES) Act funding, will allow the airport to weather the near-term activity decline. Management plans to use $60 million of CARES Act money in fiscal 2020 to reduce operating expenses in order to maintain DSC on the GARBs, and it expects to similarly use the remaining portion of approximately $21 million in CARES Act money in fiscal 2021 but also to prepay existing debt service in order to reduce the overall debt service paid in 2021 from recurring cash flow to maintain GARBs DSC. The authority's board approved a six-month abatement of all fixed premises rents and minimum annual guarantees for fiscal 2020 and a 50% reduction in the fiscal 2021 fixed premises rent and minimum annual guarantee for any concessionaire and on-airport rental car operator that was current on payment as of March 31, 2020. These operators would be required to pay their support space rent, percentage of sales, and all other fees and charges over the course of the next year. Currently, all concessionaires and rental car operators have met these requirements and are paying accordingly. Although the estimated revenue effect appears to be manageable, projected effects on key financial metrics, in our view, are still subject to considerable uncertainty. We could weaken the financial risk profile if enplanements remain depressed for an extended period, further pressuring financial metrics including DSC (S&P Global Ratings-calculated) and debt-to-net revenue, especially if the airport issues significant debt and materially draws down its cash reserves to fund CIP projects, while enplanement trends remain materially depressed or unpredictable.

Key credit strengths, in our opinion, include TPA's:

- Favorable service area economic fundamentals in the Tampa metro area, which will support robust air travel demand due to good economic activity as measured by GDP per capita, a large population base, above-average expected population growth, and ample employment opportunities despite the spike in unemployment because of COVID-19, which is currently estimated near 8.5%, compared with 3.2% a year ago, but lower than the current national level of 14.9%;
- Extremely strong management and governance, as evidenced by management's ability to adjust revenue, expenses, and capital spending to protect sound financial operations and planning for required capital spending to maintain assets and plan for growth; and
- Strong liquidity position in recent years, averaging nearly $149 million, or above 350 days of operating costs from fiscal 2017-19.

Partially offsetting these strengths, in our view, are TPA's:

- Exposure to potentially prolonged weak or unpredictable enplanement levels as a result of the ongoing COVID-19 pandemic, and lingering ancillary effects (such as the pandemic-induced recession, shifting travel restrictions, stay-at-home and social distancing restrictions, or behavioral changes with respect to air travel, particularly business travel), which complicates budgeting and planning, and

- Hampered cash-flow-generation ability, particularly derived from activity-based concession revenue sources and a weakened rate-setting environment.

Environmental, social, and governance (ESG) factors

Our rating action reflects health and safety risks posed by the COVID-19 pandemic and its impact on passenger activity due to mobility restrictions and behavioral changes related to travel, which we view as a social factor in our ESG factors, resulting in significant operating and financial pressures for TPA. We analyzed the airport's risks related to governance factors, and consider them to be in line with our view of the standard for the airport sector. We view environmental risks are somewhat elevated for the airport due to its location along Florida's Gulf Coast, which makes it more susceptible to weather events and the effects of climate change. We will continue to evaluate these risks as the situation evolves.

Negative Outlook

Downside scenario

We could lower the ratings if we come to believe that TPA's enplanements will remain materially depressed for longer than we currently expect, negatively affecting financial metrics for an extended period.

Return to stable scenario

We could revise the outlook to stable in the next two years with improved clarity on the trajectory of TPA's enplanement recovery and stabilization of activity levels. When making this assessment, we will evaluate whether the airport's ability to maintain financial metrics is achievable, sustainable, and consistent with the ratings.

Credit Opinion

S&P Global Ratings acknowledges a high degree of uncertainty about the evolution of the pandemic and its effect on the economy and air travel. The consensus among health experts is that the pandemic may now be at, or near, its peak in some regions but will remain a threat until a vaccine or effective treatment is widely available, which may not occur until the second half of 2021. We are using this assumption in assessing the economic and credit implications associated with the pandemic (see our research here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

The U.S. economy has begun what looks to be a long, difficult journey to recovery from its pandemic-induced slump. With consumer spending proving largely resilient through the summer of 2020 (helped by federal fiscal stimulus) and unemployment--while still notably high--softening a bit more than we had forecast, third-quarter GDP is poised for a steeper rebound than many market participants expected. We expect a 29.5% bounce in third-quarter U.S. GDP (6.7% annualized rate), though that will only partly offset the massive losses in the first half of the year. Our current economic forecasts anticipate ending 2020 at a negative 4.0% real GDP growth rate in 2020 and rebounding to a slower growth phase heading into 2021 with 3.9% estimated for next year, down from 5.2% in June's economic forecast and weaker than our previous 2021 estimate of 6.2%. The unemployment rate declined to 8.4% in August from its post-1947 record high of 14.75% (in April 2020); however, we don't expect the unemployment rate to reach its precrisis level until mid-2024. Our economic forecasts and macro credit implications associated with the pandemic assume a vaccine or effective treatment is widely available in the second half of 2021. As this sluggish recovery unfolds, three big risks remain: no coronavirus vaccine yet available as the country heads into flu season, a lack of new fiscal stimulus, and trade tensions with China on the rise. (See "Economic Research: The U.S. Economy Reboots, With Obstacles Ahead," published Sept 24, 2020.)

TPA's management team has taken a variety of actions to mitigate the collapse of passenger activity across the system that has negatively affected volume-based revenues, including those derived from concession as well as aeronautical revenues such as landing and international arrival fees. These actions include a deferment of approximately $905 million in capital projects between 2021 and 2025 and a delay of new-money debt issuance by one to two years, as well as an $8 million reduction in fiscal 2020 operating expenses from budgeted and an additional $10 million in fiscal 2021 to include a voluntary separation incentive program. Nonairline revenues (parking, concessions, and rental cars) constituted approximately 70% of total operating revenue in 2019. Given the high degree of revenue exposure derived from nonairline revenues, a weaker recovery in spending on these revenue streams could be a source of credit pressure in the near term. Management has also been using CARES Act money strategically to encourage a return of flights and operations by applying this federal aid to reduce airline costs at the airport and offset debt service. If the pandemic extends longer than expected, we anticipate management will consider additional actions.

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of October 2, 2020)		
Hillsborough Cnty Aviation Auth, Florida		
Tampa Intl Arpt, Florida		
Hillsborough Cnty Aviation Auth (Tampa International Airport) arpt (ASSURED GTY)		
Unenhanced Rating	A+(SPUR)/Negative	Downgraded, Removed from CreditWatch
Hillsborough Cnty Aviation Auth (Tampa International Airport) arpt (MBIA) (National)		
Unenhanced Rating	A+(SPUR)/Negative	Downgraded, Removed from CreditWatch

Many issues are enhanced by bond insurance.

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October 2, 2020

Hillsborough County Aviation Authority
Tampa International Airport
3rd Level Blue Side
P.O. Box 22287
Tampa, FL 33607
Attention: Mr. Damian L. Brooke, Vice President, Finance and Procurement

Re: ***Hillsborough County Aviation Authority (Tampa International Airport), Florida, Revenue Bonds, Various Series***

Dear Mr. Brooke:
S&P Global Ratings has reviewed the rating on the above-listed obligations. Based on our review, we have lowered our credit rating from "AA-" to "A+" and removed the rating from CreditWatch. S&P Global Ratings views the outlook for this rating as negative. A copy of the rationale supporting the rating and outlook is enclosed.
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October 2, 2020

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Attention: Mr. Damian L. Brooke, Vice President, Finance and Procurement

Re: ***Hillsborough County Aviation Authority (Tampa International Airport), Florida, Revenue Bonds, Various Series***

Dear Mr. Brooke:

S&P Global Ratings has reviewed the rating on the above-listed obligations. Based on our review, we have lowered the underlying rating (SPUR) from "AA-" to "A+" and removed the rating from CreditWatch. S&P Global Ratings views the outlook for this rating as negative. A copy of the rationale supporting the rating and outlook is enclosed.

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S&P Global Ratings has reviewed the rating on the above-listed obligations. Based on our review, we have lowered our credit rating from "A+" to "A" and removed the rating from CreditWatch. S&P Global Ratings views the outlook for this rating as negative. A copy of the rationale supporting the rating and outlook is enclosed.
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S&P Global Ratings
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The rating is subject to the Terms and Conditions, if any, attached to the Engagement Letter applicable to the rating. In the absence of such Engagement Letter and Terms and Conditions, the rating is subject to the attached Terms and Conditions. The applicable Terms and Conditions are incorporated herein by reference.

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S&P Global Ratings
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