

RatingsDirect®

Summary:

Hillsborough County Aviation Authority, Florida Tampa International Airport; Airport

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Summary:

Hillsborough County Aviation Authority, Florida Tampa International Airport; Airport

Credit Profile

US\$176.075 mil rev bnds (Tampa Intl Arpt) (Amt) ser 2015A due 10/01/2044

Long Term Rating AA-/Stable New

US\$172.2 mil subord rev bnds (Tampa Intl Arpt) (Non-amt) ser 2015B due 10/01/2044

Long Term Rating A+/Stable New

US\$22.845 mil subord rev bnds (Tampa Intl Arpt) (Amt) ser 2015A due 10/01/2044

Long Term Rating A+/Stable New

Hillsborough Cnty Aviation Auth, Florida

Tampa Intl Arpt, Florida

Hillsborough Cnty Aviation Auth (Tampa International Airport)

Long Term Rating AA-/Stable Upgraded

Hillsborough Cnty Aviation Auth (Tampa International Airport)

Long Term Rating A+/Stable Upgraded

Rationale

Standard & Poor's Ratings Services raised its long-term rating and underlying rating (SPUR) to 'AA-' from 'A+' on Hillsborough County Aviation Authority (HCAA), Fla.'s senior revenue bonds outstanding. Standard & Poor's also raised its long-term rating and SPUR to 'A+' from 'A' on the authority's subordinate series 2013A revenue bonds. At the same time, Standard & Poor's assigned its 'AA-' long-term rating to HCAA's approximately \$176.1 million series 2015A airport revenue bonds and an 'A+' long-term rating to HCAA's approximately \$22.8 million series 2015A subordinate airport revenue bonds and \$172.2 million series 2015B subordinate airport revenue bonds, issued for Tampa International Airport (TPA). The outlook is stable.

The ratings reflect our opinion of TPA's ability to fund its near-term capital improvement plan (CIP) totaling \$953 million while maintaining a relatively low airline cost with cost per enplanement (CPE) projected to reach a peak of \$6.28 in 2023, as well as strong projected coverage. Forecasted coverage ranges from 1.83x to 2.24x from fiscal years 2016 to 2024 on an aggregate basis as calculated by Standard & Poor's. Debt per enplanement in 2014 is low at \$64, and management projects it will be approximately \$90 in 2020, a moderate level for an airport completing a major phase of its CIP. In addition, TPA has a good air carrier mix and a strong management team.

More specifically, the rating reflects our opinion of the following credit strengths:

- The airport has a relatively low cost structure, with cost per enplaned passenger at \$5.23 in fiscal (year-end Sept. 30) 2014;
- TPA has historically had a diverse revenue base, with passenger airline revenue representing less than 32% of operating revenues, on average, during fiscal years 2009 to 2014;

- The airport benefits from a solid origination and destination base (92% of enplanements); and
- It has an experienced and effective management team with a well-defined capital improvement program in place, allowing it to meet air travel demand while maintaining good financial margins.

In our view, the following factors somewhat offset these strengths:

- A large CIP with additional debt needs; and
- A slight degree of competition from Orlando International Airport, less than 100 miles from TPA.

Securing the bonds is a pledge of the net revenues of the airport system, which consist of TPA and three general reliever aviation airports: Peter O. Knight Airport, Plant City Airport, and Vandenberg Airport. 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 series 2009A and 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 2009A bonds and the subordinated bonds. The PFC collections that might be counted as revenue in satisfying the rate covenant and additional bonds tests is limited to no more than 1.25x of annual debt service related to the double-barrel general airport revenue bonds (GARB).

We believe bond provisions are adequate under the senior and subordinated trust indenture. The senior-lien bonds benefit from a common reserve funded at maximum annual debt service, and the subordinate lien bonds have a common debt service reserve funded at average annual debt service. HCAA must replenish any draws from the common reserve as soon as it has available funds. The rate covenant on the senior bonds requires net revenue sufficient to provide 1.25x senior debt service. The rate covenant for the subordinated bonds is a two part test that requires net revenues after payment of senior bonds equal 125% of annual debt service on the subordinated bonds including PFC revenues, and that net revenues including PFCs must equal 1.15x on a combined basis including senior and subordinate debt service. The authority can utilize carryover funds in the surplus account as revenue. Regardless of the amount of carryover coverage available, rates and charges must be set such that net airport revenues cover TPA's annual debt service requirement of 1x. The additional bonds test includes historical and projected tests although the HCAA must meet only one to issue debt. Each test requires the authority to meet a rate covenant on existing and additional bonds.

Demand at TPA has been relatively stable for the past five years, and we expect this will continue despite slight competition from Orlando International. During this time, enplanements fell to a low of 8.3 million in 2010 and then improved slightly from 2011 through 2014 to reach 8.7 million in 2014, which saw an increase of 1.7% over 2013. According to the feasibility study completed for the 2015 financing, enplanements are projected to rise at a compound annual growth rate (CAGR) of 2.1% through 2024. These expectations are largely due to international growth; international enplanements are projected to increase at a 6.2% CAGR through 2024 compared with a 1.9% CAGR in domestic enplanements. We view these projections as reasonable given recent strength in international enplanements, which have increased 6.2% annually from 2004 through 2014. Year-to-date enplanements have increased 6.4% for the first six months of fiscal year 2015.

TPA's carrier mix is varied, in our opinion, comprising Southwest Airlines Co., American Airlines Group Inc., and Delta

Air Lines Inc., accounting for about 35%, 19%, and 17%, respectively, for the 12-months ended March 31, 2015, based on annual enplaned passengers.

The HCAA was created in 1945. The authority has exclusive jurisdiction, control, supervision, and management over all public airports within Hillsborough County. Therefore, the HCAA is authorized to issue revenue bonds to finance the construction of aviation-related projects.

The authority completed the airport's master plan in 2012. TPA's current master plan consists of three phases and totals \$2.5 billion. Phase 1 and 2 consist of decongestion and enabling projects. Phase 3 consists of expansion projects and will only be initiated upon sufficient demand. Phases 1 and 2 total \$953 million combined. The bulk of phase 1 involves renovations and expansion to decongest the existing terminal space and increase capacity to meet increasing demand, including an automated people mover and a consolidated rental car facility. Phase 2 includes a new employee parking structure, the demolition and replacement of a hotel service building, and the relocation of the air traffic control tower. Phase 3 focuses on expanding the main terminal, as well constructing a new international terminal.

The HCAA plans to cover most of the cost of its CIP with a combination of revenue bonds, bonds backed by customer facility charges, the airport's funds, federal and state grants, and PFC revenues. As part of the authority's master plan, phases 1 and 2 include the current 2015 issues, as well as \$231 million of additionally planned GARB issues and a bond issuance to be secured by customer facility charges. TPA refunded the balance of its outstanding series 2003B, 2003C, and 2003D bonds with directly placed bonds in fiscal 2014, which, in our view, pose low contingent liability risk to the airport.

In our view, the HCAA's financial position has historically been good with strong debt service coverage that we expect will continue, a competitive cost structure, and a manageable debt burden. Coverage on an aggregate basis, as calculated by Standard & Poor's, was 1.62x in 2014. Management-calculated aggregate coverage was 1.71x in 2014. Management's calculations include PFC collections that might be counted as revenue in satisfying the rate covenant and additional bonds tests subject to the 125% limitation. Although previous-year transfers can cover up to 25% of debt service under the indenture, the authority has never had to rely on these to meet the 1.25x requirement. As part of the recently completed feasibility study, management-calculated pro forma aggregate coverage ranges from 1.65x to 2.31x from 2015 to 2024. Aggregate coverage, according to our calculations, will range from 1.58x to 2.24x from fiscal years 2015 to 2024, averaging 1.93x. Management provided a downside scenario in which it planned for three years of decreased enplanements (equal to the declines seen during the 2008 economic downturn) followed by three years of annual enplanement increases of approximately 0.6%, and then increases of 2.1% per year. The scenario also maintains conservative revenue and expense assumptions. As calculated by Standard & Poor's, this downside scenario provided coverage that ranged from 1.48x to 1.94x from fiscal years 2015 to 2024--still well above the required minimums for the rate covenant.

TPA's CPE was \$5.23 in 2014 and is projected to reach a peak of \$6.28 in 2023. In our view, cost per enplaned passenger remains competitive despite the airport's borrowing plans. Debt per enplanement totaled \$64 in 2014, and management projects it will be approximately \$90 in 2020. The airport's reported liquidity (including money in the operating and maintenance, operating reserve, revenue, and surplus funds) totaled \$105.3 million as of fiscal year-end 2014, equal to 377 days' cash. Although not legally pledged, the HCAA can levy a property tax through Hillsborough

County that would provide approximately \$97 million in additional revenue annually (based on 2010 assessment data). The authority has not done this since 1973.

Outlook

The stable outlook reflects our expectation that enplanement trends at TPA have stabilized and will grow modestly during the two-year outlook period. We also expect that the airport will maintain a competitive cost structure and a sound financial performance despite its borrowing plans. A decrease in financial margins (including lower coverage or liquidity) could lead to a downgrade. We do not expect to raise the rating during the two-year outlook period given the airport's additional debt requirements.

Related Criteria And Research

Related Criteria

- Criteria: Airport Revenue Bonds In The U.S. And Canada, Nov. 15, 2013
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Ratings Detail (As Of July 7, 2015)

Hillsborough Cnty Aviation Auth, Florida

Tampa Intl Arpt, Florida

Hillsborough Cnty Aviation Auth (Tampa Intl Arpt)

Unenhanced Rating AA-(SPUR)/Stable Upgraded

Hillsborough Cnty Aviation Auth (Tampa Intl Arpt) arpt

Unenhanced Rating AA-(SPUR)/Stable Upgraded

Hillsborough Cnty Aviation Auth (Tampa Intl Arpt) arpt ser 2001A dtd 05/01/2001 due 10/01/2002-2015

Unenhanced Rating AA-(SPUR)/Stable Upgraded

Many issues are enhanced by bond insurance.

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