FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Hillsborough Co. Aviation Auth's Sr. Airport Revs at 'AA-' & Sub Revs at 'A+'

Wed 24 Feb, 2021 - 4:16 PM ET

Fitch Ratings - Austin - 24 Feb 2021: Fitch Ratings has affirmed Hillsborough County Aviation Authority's (Tampa International Airport) outstanding senior airport revenue bonds at 'AA-' and the outstanding airport subordinated revenue refunding bonds at 'A+'. The Rating Outlook for all bonds remains Negative.

The Negative Outlook reflects the substantial adverse impact on operating and financial performance due to the coronavirus pandemic and related containment measures, along with uncertainty around the timing and magnitude of recovery. A continuation of low activity levels into 2021 without an established trend of recovery would likely result in a rating downgrade to all of the airport's debt obligations.

RATING RATIONALE

The ratings reflect the airport's strong origin and destination (O&D) position in the Tampa and Central Florida market, providing stability through business cycles prior to the coronavirus pandemic. Tampa International Airport (TPA) benefits from a recently strengthened cost recovery framework with carriers, including stable overall coverage (forecast around 2x), and a competitive cost per enplanement (CPE), forecast to settle in the $10-$11 range in Fitch's Coronavirus Rating Case, despite the impacts of the pandemic and including additional borrowings. While a sizable capital program is underway with some additional borrowing expected, leverage is expected to remain at levels consistent with the rating levels and with area peers.

KEY RATING DRIVERS

Large Market, Some Volatility - Revenue Risk (Volume): Stronger

The airport's sizable O&D market, comprising approximately 90% of 6.7 million enplanements in 2020, is supported by a strong local traffic base in the years prior to the coronavirus pandemic. Enplanements were showing strong growth prior to the pandemic, with a five-year CAGR of 5.0% through 2019. The airport continues to face the impacts of the pandemic as well as some limited competition from nearby Florida airports; however, steady growth in the service area prior to the pandemic, its recovery prospects, and TPA's carrier diversity serve as offsets to these concerns.

Strengthened Cost Recovery Framework - Revenue Risk (Price): Stronger

As of fiscal 2021, TPA has switched from its prior airline use and lease agreement to a rates by resolution approach, the basis of which is nearing full cost recovery. The new approach is projected to increase airline revenues by approximately 50% or $30 million annually compared to the old agreement. Airline CPE in Fitch's conservative rating case is projected to increase from around $5 prior to the pandemic to around $11 under the new framework post-recovery and including additional debt issuances; however, Fitch still considers this level extremely competitive compared to other large airport peers. The new resolution does not have an expiration date, and the authority currently has no immediate plans to move away from the current resolution.

Partially Debt Funded CIP - Infrastructure Development/Renewal: Midrange

The airport's master plan CIP consists of three phases to reduce traffic congestion, prepare the existing terminal for future growth, and to expand the main terminal. The airport is now on phase 2 of the master plan, which will enable the final phase. Phase two projects are expected to total $544 million and are currently on time and on budget. Phase 3 will be postponed approximately four years given the pandemic, though additional flexibility exists to align the timing with their needs depending on the trajectory of enplanement recovery.

Conservative Debt Structure - Debt Structure: Stronger (Senior), Midrange (Subordinate)

Nearly all of the airport's debt is fixed-rate, though the airport does have a bank loan with Truist, of which approximately $40 million is outstanding. Currently, 36% of outstanding GARB debt is on the subordinate lien. Including expected borrowings in 2022 and 2024, debt service obligations increase through the early 2030s before leveling off. Structural features and covenants are standard for a strong airport credit, including cash funded debt service reserves.

Financial Summary

TPA's 2020 net debt-to-cash flow available for debt service (CFADS) rose to 7.4x from 5.3x due the impacts on revenue generation from the coronavirus pandemic. Liquidity levels fell to approximately $102 million as of FYE 2020, representing 273 days cash on hand (not including the benefit of CARES Act funding), though management expects this will rise to approximately $150 million by the end of fiscal 2021. All-in leverage is expected to remain in the 5-6x range going forward due to the lingering effects of the coronavirus pandemic in conjunction with borrowing associated with phase 2 of the master plan. The airport's debt service coverage ratio (DSCR) fell to 1.8x and 1.5x for senior and total debt, respectively, in fiscal 2020, however, it is forecast to average 2.4x/2.1x (senior/all in) in Fitch's coronavirus rating case. Maintaining high DSCRs is essential for management's ability to cash fund large portions of its ongoing capital programs.

PEER GROUP

The airport's peers include other Florida airports with similar market characteristics, such as Greater Orlando Aviation Authority (GOAA; rated AA-/A+/Negative) and Broward County Fort Lauderdale (FLL; rated A+/Negative). GOAA's similar rating reflects a significantly larger enplanement base and stronger liquidity position offset by greater capital needs and FLL's reflects a larger service area offset by a higher leverage position.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Positive rating action is unlikely given current rating levels coupled with the airport's expected leverage and coverage metrics as well as overall traffic profile;

--A return to a Stable Outlook could be warranted if Fitch sees sustained recovery in traffic and revenues due to the easing of the pandemic resulting in normal air traffic patterns.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Measurable increase in leverage above current plans to support the capital program, resulting in sustained senior lien leverage above 8x or all-in leverage above 10x.

--Higher traffic volatility or a trend of persistent traffic reductions negatively affecting cashflows and credit metrics compared to current expectations.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [https://www.fitchratings.com/site/re/10111579].

CREDIT UPDATE

Performance Update

Fiscal 2020 enplanements declined by nearly 40% over the prior year due to the coronavirus pandemic, with April 2020 enplanements down by approximately 95.6% over April 2019 enplanements. The airport has experienced a limited recovery to date, with year to date fiscal 2021 enplanements through December down 55% over the prior year. Operating revenues declined by approximately 27% over the prior year, coming in approximately $75 million or about $28% below budget.

Budgeted revenues for fiscal 2021 are expected to be approximately $219 million, and management has stated that through the first three months of fiscal 2021, operating revenues are $4.5 million above budget. For the first three months of the fiscal year, TPA exceeded its passenger budget by 1.6% and management is cautiously optimistic that the airport will hit both its passenger traffic and revenue targets for full-year fiscal 2021. Operating costs declined by approximately 2.7% in fiscal 2020 due to the coronavirus pandemic, resulting in senior coverage of 1.8x and Fitch-calculated total coverage of 1.5x for the year.

The authority drew $60.6 million of CARES funding in fiscal 2020 to reimburse personnel costs, to reduce the O&M expenditure requirement in the debt service coverage calculation, and to pre-pay approximately $16 million of debt for fiscal 2021. The authority drew the remaining $20.6 million of CARES funding during October 2020 (the first month of fiscal 2021), which will once again be used to reduce the O&M expenditure requirement and help offset the impact of the various relief programs.

The airport expects to receive another approximately $20.6 million in supplemental HEALS funding as well as monies from the third round of federal funding, and plans to use these funds towards either personnel expenses or towards debt service. Management plans to decide later this fiscal year whether or not it will draw those funds during fiscal years 2021 or 2022, depending on projected coverage levels for both years.

As a temporary measure during the initial months of the pandemic, TPA increased the SunTrust (now Truist) line of credit from $100 million to $200 million. The extra $100 million was requested given the unknown potential impact to operations and revenues of the pandemic; and was implemented as an additional cushion for the airport. The extra $100 million line expires in June of 2021, unless extended, whereas the original $100 million line of credit will remain in place. The current balance on the line of credit is approximately $40 million.

The authority adopted a new airline rates by resolution structure in fiscal 2021. The basis for the new cost methodology is full cost recovery, which would result in airline revenues increasing by approximately $30 million annually versus the old agreement. Airline cost per enplanement is forecast to increase to the $10-$11 range in Fitch's coronavirus cases, but remain low relative to peers.

As part of the change to the new structure, TPA moved to hard coverage requirements as opposed to rolling coverage and airlines will now be responsible for a greater percentage of annual GARB debt service than under the old agreement. Fitch views the strengthened cost recovery terms as a credit positive, as the structure should provide for stable financial performance despite the pandemic effects.

Phase 2 of the master plan is currently on time and on budget, and major project components have continued throughout the pandemic. Phase 3 of the master plan has been shifted back by approximately four years, and in the event of continued downturns due to the pandemic, management has the flexibility to further move out projects in the master plan. There have been no major changes to the current funding plan to date. The airport is currently using the Truist note to fund the Phase 2 projects. Tentatively, management has indicated that they are planning an issuance of $270 million 2022 and an additional $150 million issuance in 2024, which Fitch has included in its cases.

FINANCIAL ANALYSIS

Fitch Cases

Given the current economic environment due to the coronavirus pandemic and unlikely stable operating environment over the near term, Fitch's Coronavirus Rating Case is also considered the Base Case.

Coronavirus rating case enplanements are forecast to fall by 45% over 2019 levels in 2021, and growth is expected to be limited, recovering to 95% of 2019 enplanements by 2024. Under this scenario, senior coverage averages 2.4x over the next five years and total coverage averages 2.1x. Leverage spikes in fiscal 2021 as a result of the coronavirus pandemic, before declining to 4.1x and 4.8x for the senior and total leverage, respectively, by fiscal 2025. CPE spikes in 2021, but falls to the $10 range going forward.

In the coronavirus severe downside case, fiscal 2021 enplanements decline 60% over 2019, and recover more slowly, only reaching 85% of 2019 enplanements by fiscal 2024. Under this scenario, senior coverage averages 1.8x over the next five years, and total coverage averages 1.6x, when counting PFCs as revenues and CARES Act funds as offsets to operating expenses. Leverage spikes in fiscal 2021 as a result of the pandemic, before declining to 4.3x and 5.1x for the senior and total leverage, respectively, by fiscal 2025. CPE spikes in 2021, but falls to the $10 range going forward.

SECURITY

Senior revenue bonds issued by the authority are payable solely from airport revenues derived from the operation of the airport system (Tampa and three general aviation airports) after the payment of operation and maintenance expenses. Available PFC revenues are included in the definition of revenues and eligible PFC-project bonds are paid from a first lien on available PFC revenues with a back-up pledge of airport net revenues. Pledged PFCs are limited to 125% of PFC-eligible debt service. No PFC supported senior bonds are currently outstanding.

Subordinate revenue bonds are payable from airport system net operating revenues after payment of operating expenses and senior lien debt service. Remaining PFCs after application for senior lien debt service are available to pay PFC eligible debt service on the sub lien.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Hillsborough County Aviation Authority (FL)				
• Hillsborough County Aviation Authority (FL) /Airport Revenues - Subordinate Lien/1 LT	LT	A+ Rating Outlook Negative	Affirmed	A+ Rating Outlook Negative
• Hillsborough County Aviation Authority	LT	AA- Rating Outlook Negative	Affirmed	AA- Rating Outlook Negative

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Jeffrey Lack
Director
Primary Rating Analyst
+1 312 368 3171
Fitch Ratings, Inc.
2600 Via Fortuna, Suite 330 Austin, TX 78746

Seth Lehman
Senior Director
Secondary Rating Analyst
+1 212 908 0755

Scott Monroe, CFA
Senior Director
Committee Chairperson
+1 415 732 5618

MEDIA CONTACTS

Sandro Scenga
New York
+1 212 908 0278
sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

Infrastructure and Project Finance Rating Criteria (pub. 24 Mar 2020) (including rating assumption sensitivity)

Airports Rating Criteria (pub. 22 Oct 2020) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

GIG AST Model, v1.2.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Hillsborough County Aviation Authority (FL)	EU Endorsed, UK Endorsed

DISCLAIMER

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS. IN ADDITION, THE FOLLOWING HTTPS://WWW.FITCHRATINGS.COM/RATING-DEFINITIONS-DOCUMENT DETAILS FITCH'S RATING DEFINITIONS FOR EACH RATING SCALE AND RATING CATEGORIES, INCLUDING DEFINITIONS RELATING TO DEFAULT. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR WHICH THE LEAD ANALYST IS BASED IN AN ESMA- OR FCA-REGISTERED FITCH RATINGS COMPANY (OR BRANCH OF SUCH A COMPANY) CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH RATINGS WEBSITE.

READ LESS

COPYRIGHT

ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.
The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports

are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form

NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

READ LESS

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's Regulatory Affairs page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

Industrials and Transportation US Public Finance

Infrastructure and Project Finance North America United States

---