08 FEB 2022

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

Fitch Ratings - New York - 08 Feb 2022: Fitch Ratings has assigned the following ratings to bonds issued on behalf of Tampa International Airport (the airport) by the Hillsborough County Aviation Authority (the authority):

--Approximately $350.5 million series 2022A (AMT) and 2022B (Non-AMT) senior airport revenue bonds 'AA-';

--Approximately $349.4 million series 2022A subordinate airport revenue bonds 'A+'.

In addition, Fitch has affirmed the airport's outstanding senior airport revenue bonds at 'AA-' and the outstanding airport subordinate revenue refunding bonds at 'A+'. The Rating Outlook for all bonds is Stable.

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 (estimated around 2.0x), and a competitive cost per enplanement (CPE), between $10-$15 in Fitch's 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 96% of 7.7 million enplanements in 2021, 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, strong recovery prospects as evidenced by the monthly enplanement trajectory in 2021, 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 $15 under the new framework post-recovery and including additional debt issuances; however, Fitch still considers this level 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, capital improvement plan (CIP), consists of three phases to reduce traffic congestion, prepare the existing terminal for future growth, and construct a new terminal building. The airport is now implementing phase two 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. While phase three has been postponed approximately two years due to the pandemic, additional flexibility exists to align the timing with airport needs depending on the trajectory of enplanement recovery.

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

All of the airport's rated debt is fixed-rate. The airport has a subordinate bank loan with Truist (approximately $106 million outstanding) which has been used for CIP funding, and is expected to be paid off with proceeds of the 2022A bonds. Approximately 38% of outstanding general airport revenue bond (GARB) debt is on the subordinate lien. Including expected borrowings in 2022 and 2024, debt service obligations increase through the early 2030s before levelling off. Structural features and covenants are standard for a strong airport credit, including cash funded debt service reserves.

Financial Profile

TPA's 2021 net debt-to-cash flow available for debt service was 5.0x, but is expected to increase in both Fitch's base and rating case due to planned future additional debt issuances. Liquidity levels remain sound, increasing to $227 million as of FYE 2021, representing 623 days cash on hand (not including the benefit of COVID relief funds).

All-in leverage is expected to increase in 2024 due to borrowing associated with the master plan and annual capital investments. The airport's debt service coverage ratio (DSCR) increased to 2.4x and 2.0x for senior and total debt, respectively, in fiscal 2021, however, it is assumed to average 2.2x/1.9x (senior/all in) in Fitch's 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+/Stable) and Broward County Fort Lauderdale (FLL;

rated A+/Stable). 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 negative rating action/ downgrade:

--Measurable increase in leverage above current plans to support the capital program, resulting in sustained senior lien leverage above 8.0x or all-in leverage above 10.0x;

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

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

--Continued progress on the current capital program along with recovery to historical traffic levels, leading to improved all-in leverage below 6.0x on a sustained basis, could lead to positive rating action on both liens.

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.

TRANSACTION SUMMARY

The authority expects to issue approximately $350.5 million of series 2022A and 2022B senior airport system revenue bonds in February 2022. The airport also expects to issue $349.4 million of series 2022A subordinate airport system revenue refunding bonds. The majority of the senior GARBs will be used to fund master plan items, including a main terminal curbside expansion, demolition of the administration building, other enabling projects for master plan phase three, and certain CIP projects including baggage claim level ceiling replacement and other airport rehabilitation projects.

In addition, the series 2022A senior GARBs are anticipated to repay the amount outstanding on the authority's bank loan. The series 2022A subordinate lien PFC revenue refunding bonds will be used to refund all of the 2013A refunded subordinated bonds, the 2015A refunded subordinated bonds, the 2015 B refunded subordinated bonds, and the 2015A refunded senior bonds in order to achieve debt service savings.

CREDIT UPDATE

Similar to airports nationwide, TPA experienced a significant decline in passenger volumes beginning in March 2020 as air travel was sharply curtailed by the effects of the coronavirus pandemic. Enplanements were down 40% and 30% relative to fiscal years 2019, 2020 and 2021, respectively (TPA's FYE September 30). However, since March 2021, TPA's monthly enplanements have continued to recover substantially, reaching 83% of 2019 levels for the last seven months of the fiscal 2021.

Monthly enplanements remained above 85% of 2019 levels since May 2021 and for the first three months of fiscal 2022, monthly enplanements have been at or near 100%. TPA's strong recovery reflects the strength of the service area and increased U.S. vaccinations driving domestic air travel. For the first three months of fiscal 2022, enplanements are only 1.3% below fiscal 2019 levels and over double fiscal 2021 levels.

Fiscal 2021 gross operating revenues totaled $234.2 million, 7% above the authority's fiscal 2021 budget. Similarly, fiscal 2021 operating expenses of $133.3 million were 3% below budgeted amounts. The increase in operating revenues was largely due to higher net airline revenues and rental car concessions exceeding budgeted amounts. Rental car concessions were 33% or $9.6 million higher than fiscal 2021 budgeted amounts, reflecting the strong leisure recovery as well as continuing increases in the daily rental rate due to vehicle inventory constraints in the Tampa.

Budgeted revenues for fiscal 2022 are expected to be approximately $283 million, 21% above fiscal 2021. The increase in operating revenues reflects both TPA's enplanement projections (93% of fiscal 2019 levels) as well as the first full year of the authority's new airline rates by resolution structure adopted in fiscal 2021. Similarly, TPA is budgeting a 20% increase in operating expenditures, which is driven by increased personnel costs (47% of O&M) as the authority fills positions that were left vacant and removes cost saving measures the authority took during the pandemic. Management has stated that through the first three months of fiscal 2022, operating revenues are $7.5 million above budget. For the first three months of the fiscal year, TPA exceeded budgeted enplanements by 9%.

TPA received three rounds of federal assistance funds to help offset the impact of revenue losses. The airport received $81.2 million under the CARES Act funds, $20.6 million under the CRRSAA, and $79.4 million under ARPA. Of the total $181 million of federal relief grants awarded, TPA used $60.6 million in fiscal 2020 and $38.8 million in fiscal 2021 to offset O&M costs. The airport anticipates using the remaining $82 million in federal relief funds over the next two fiscal years to offset O&M, with $42.4 million included in the 2022 budget and $39.4 million projected to be used in 2023.

These funds provide the airport with additional cushion should enplanements perform below expectations. In addition, the authority has also been allocated $110 million in federal infrastructure funding through FY 2025, none of which has been currently drawn. The authority plans to use the additional funding for airside D, through the $5 million terminal development section of the federal infrastructure program.

Phase two of the master plan is currently on time and on budget, and major project components have continued throughout the pandemic. Phase three of the master plan has been shifted back by approximately two years as a result of the pandemic. In the event of a prolonged downturn or resurgence of significantly depressed traffic levels 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 Truist bank note that has been used to fund the Phase two projects is expected to be repaid with bond proceeds following the 2022 issuance. In addition, management has indicated that they are planning an issuance of an additional $663 million senior lien bonds and $233.1 million subordinate lien (PFC) bonds in fiscal 2024 to support phase three and the authority's capital program. Fitch has incorporated both the senior and subordinate lien future issuances in its financial cases.

FINANCIAL ANALYSIS

Fitch regards the assumptions in the report of the airport consultant as reasonable and generally in line with Fitch's views for enplanement recovery, and therefore has adopted its case as the Fitch base case. The base case incorporates the airport's 2021 unaudited actuals and fiscal 2022 estimates, as well as projections provided by the airport consultant through fiscal 2028.

Fitch views these projections are reasonable given the significant recovery in monthly enplanements to date and conservative underlying assumptions. In this case, total revenues grow at a 9% CAGR and O&M expenditures grow at an 8% CAGR from 2021 to 2028. Revenue growth is largely reflective of both recovering enplanement levels as well as the airport's rates by resolution structure, which have been in effect since FY 2021.

The base case assumes enplanements reach 93% of fiscal 2019 levels in 2022 and exceed 2019 levels in 2023, growing at an average rate of 3% thereafter until 2028. In addition, Fitch has incorporated the 2022 borrowing as well as the airport's planned 2024 issuance into the debt profile. Under this scenario, senior debt service coverage averages 2.3x over from 2022 to 2028 and total coverage averages 2.0x. Leverage increases in fiscal 2024 as a result of future planned issuances, but declines to 5.0x and 6.3x for the senior and total leverage, respectively, by fiscal 2028. CPE continues to increase gradually, reflecting the airport's new rates by resolution structure, but remains within $1-$2 of fiscal 2021 CPE.

Fitch's rating case assumes a more conservative enplanement recovery than the base case, with full enplanement recovery not occurring until 2024. Fitch assumes 2022 and 2023 enplanements are equal to 90% and 95% of 2019 levels. Following 2024, Fitch assumes enplanements grow by 2%. In this case, both total revenues and O&M grow at about an 8% CAGR from 2021 to 2028.

Under this scenario, senior coverage averages 2.2x and total coverage averages 1.9x, when counting PFCs as revenues and CARES Act funds as offsets to operating expenses. Total leverage rises to 9.4x in fiscal 2024 due to expected additional debt issuances, but falls below 7.0x by fiscal 2028. CPE in this scenario increases at a slightly faster pace than the base case in fiscal years 2025-2028, following the additional debt issuance. CPE increases from $10.87 in 2021 to $14.57 in 2028.

In both the base and rating case, Fitch incorporates managements forward guidance for available funds for operations in fiscal 2022 and fiscal 2023, but assumes cash levels revert back to 2021 levels in 2024 given the authority's capital plans and other uses.

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.

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Rating Actions

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

RATINGS KEY	OUTLOOK	WATCH
POSITIVE	⊕	⬘
NEGATIVE	⊖	⬙
EVOLVING	⊙	◆
STABLE	○	

Applicable Criteria

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

Infrastructure and Project Finance Rating Criteria (pub.23 Aug 2021) (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, v1.3.1 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

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