Hillsborough County Aviation Authority, FL (Tampa International Airport)

Issuer: Hillsborough County Aviation Authority, FL		
Affirmed	**Ratings**	**Outlook**
Tampa International Airport Revenue Bonds	AA	Stable
Tampa International Airport Subordinated Revenue Bonds	AA-	Stable

Methodology

- U.S. General Airport Revenue Bond Rating Methodology
- ESG Global Rating Methodology

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Rating Summary: KBRA affirms the ratings for the Tampa International Airport senior and subordinate airport revenue bonds. The bonds are secured by a pledge of airport system net revenues. Subordinate lien bonds are payable from remaining net revenues after payment of the senior lien bonds, as well as from available passenger facility charge revenues (PFCs.)

The ratings reflect Tampa International Airport's (TPA's) stable origin and destination (O&D) market position and the favorable economic and demographic characteristics of the air trade area. Enplanement growth and expenditure controls have contributed to a trend of relatively low airline costs, sound debt service coverage, and robust liquidity that has improved throughout the COVID-19 pandemic recovery.

The Hillsborough County Aviation Authority (the Authority) had recorded a favorable trend of rising enplanements with a 4.0% compound annual growth rate (CAGR) between FY 2012 and FY 2019. Following the onset of the COVID-19 pandemic, passenger enplanements bottomed out at just 47,000 in April 2020, down 95.6% year-over-year (YoY). Enplanement activity has recovered at a more rapid pace than the U.S. overall, now trending near pre-pandemic levels. January 2023 enplanements are estimated at 96% of January 2020 levels. Airport officials project that TPA will handle more than 23.4 million passengers during FY 2023, an 8.7% increase versus FY 2022, representing a 6% increase from FY 2019 (pre-COVID) levels. Positively, there have been numerous service initiations and resumptions, with domestic airlines augmenting capacity to take advantage of passenger demand for leisure destinations within the United States.

Following the onset of the pandemic, numerous steps were taken to mitigate the financial impact at TPA caused by significantly decreased passenger activity. These included deferred maintenance, hiring freezes, a voluntary separation incentive program, temporary closures of underutilized facilities, and deferred capital projects. The Authority was allocated $181 million through three federal stimulus programs. Of these amounts, $16.6 million of ARPA funds remain and are expected to be used in FY 2023 to offset operating expenses.

Debt service coverage for the senior bonds has ranged from 2.08x to 3.64x over the past five years, pursuant to the Senior Trust Agreement. Coverage of subordinated bonds has varied from 3.11x to 6.74x, including the application of PFC revenues, over the same period. Combined coverage ranges from 1.70x to 2.95x, well above rate covenant requirements.

TPA's capital program totals approximately $2.2 billion through FY 2028, including approximately $892 million in projects budgeted for FY 2023 (ending September 30). The Authority presently contemplates issuing an additional $585 million in senior and subordinate bonds in 2024 to primarily fund construction of Airside D, along with State funding of approximately $112 million and federal Infrastructure Investment and Jobs Act (IIJA) funding of approximately $90 million. Sharply increased debt service requirements are expected be accommodated by TPA operations, and management is evaluating the potential defeasance of callable bonds outstanding.

The Authority's airline use and lease agreement (AULA) historically employed a hybrid rate-making methodology with residual landing fees and compensatory terminal rents. The agreement, however, expired on September 30, 2020, and the Authority and airlines were unable to complete the negotiation of a new long-term agreement. Rates are currently set by resolution. The rates by resolution model establishes a cost recovery rate setting methodology whereby airlines pay for the facilities they use, including the baggage handling system and passenger shuttles to airsides. This represents a departure from the AULA, which entailed subsidization of airline cost centers by the Authority. In contrast with the AULA, which required signatory airlines to guarantee the 1.25x debt service coverage required by bond covenants in return for rebates of debt service coverage and a 20% share of remaining surplus revenues (revenues less expenditures less the operating reserve requirement less debt service), airlines no longer provide a financial backstop under the new rate resolution. There are, however, no limitations to the frequency or timing of rate adjustments under the current rates by resolution approach, and the Authority plans to continue to implement a cost-recovery rate making methodology either under the resolution or a future agreement. KBRA believes new airline entrants and service enhancements at TPA act to offset concerns related to the absence of the AULA, and no near-term plans to enter a new agreement, per management.

Airline costs per enplanement (CPE) were among the lowest for large U.S. hubs at $4.94 in FY 2019. CPE increased substantially to $8.76 in FY 2020 and $10.87 in FY 2021 due to the pandemic-induced decline in airport activity. Officials project CPE to be $9.54 for FY 2023, while the 2022 Consultant's Report forecasts increases to $12.91 by FY 2028, recognizing additional borrowing, capital program additions, and further enplaned passenger growth.

The Stable Outlook reflects the strong recovery to date in passenger activity as well as the impact of substantial federal assistance and ample, and recently enhanced, airport liquidity. The Outlook additionally reflects the expectation that the Authority will continue to adopt necessary revenue and expenditure measures to meet all financial obligations and bond rate covenants.

Key Credit Considerations

The rating was assigned because of the following key credit considerations:

Credit Positives

- Broad and growing air trade area (ATA) economy and healthy population growth support increasing demand for air travel, while the strictly O&D nature of airport activity confers stability.
- Diverse carrier mix with existing airlines continuing to strategically add new domestic and international routes, which is supportive of continued enplanement growth. Airline costs are competitive.
- Sound financial operations with additional financial flexibility derived from the ability to levy a 1.5 mil ad valorem tax which, based on current valuations, would generate approximately $190 million/year.

Credit Challenges

- Substantial capital improvement program is expected to result in new borrowing in 2024.

Rating Sensitivities

▪ A sustained recovery in passenger traffic growth, with strong accompanying performance of non-aviation revenues. ▪ Completion of capital program on time and within budget.	+
▪ Potential reversion in passenger volumes. ▪ Trend of weakened liquidity levels and/or debt metrics. ▪ Cost overruns or delays associated with the robust capital improvement program.	-

Key Ratios

Key Airport Ratios FYE September 30	
Airport Activity	
Top Carrier Market Share (FY 2022)	
Southwest	26.6%
Delta	17.8%
American	17.5%
Trust Agreement Coverage in FY 2022	
Senior Debt Service Coverage	3.64x
Senior & Subordinate Debt Service Coverage	2.95x

Source: Hillsborough County Aviation Authority

Rating Determinants (RD)	Senior	Subordinate
1. Management	Favorable	Favorable
2. Economics/Demographics of the Service Area	AA-	AA-
3. Airport Utilization	A+	A+
4. Airport Debt/Capital Needs	AA+	AA+
5. Airport Finances	AA+	AA+
6. Legal Mechanics and Security Provisions	AA	AA-

Detailed reviews of Rating Determinants 1-4 and 6 can be found in KBRA's report dated February 8, 2022. KBRA's latest bankruptcy assessment can be found in the report dated September 21, 2021.

ESG Management

A detailed review of ESG Management can be found in KBRA's report dated February 8, 2022.

RD 5 Update: Airport Finances

Debt Service Coverage

Debt service coverage as calculated by the Senior Trust Agreement increased from 2.08x in 2020 to 2.44x (budgetary basis) in 2021. Subordinate Trust Agreement coverage, which benefits from the application of PFC revenues, similarly rose from 3.11x to 3.74x. Each of the three rate covenants, which require 1.25x coverage of senior obligations, 1.25x coverage of subordinate obligations, and 1.15x coverage of combined obligations, respectively, were also satisfied. FY 2021 coverage was bolstered by the application of $38.8 million in CARES Act Funds.

The Authority projects ample debt service coverage in FY 2022 and FY 2023 based on an assumed continued recovery in enplanements, as well as the application of $42.4 million in CARES/CRRSA funds in FY 2022 and $16.6 million in ARPA funds in FY 2023.

Figure 1

Hillsborough County Aviation Authority
Tampa International, Peter O Knight, Plant City & Tampa Executive Airports
Debt Service Coverage Ratios (Budgetary Basis) (dollars in thousands)

	2017	2018	2019	2020	2021	2022 Projected	2023 Budget
Operating Revenues	$ 215,893	$ 240,573	$ 267,665	$ 194,941	$ 231,865	$ 316,970	$ 343,528
Less: Operating Expenses	(117,204)	(128,300)	(139,023)	(135,754)	(134,975)	(156,504)	(175,566)
Other Adjustments[1]	4,807	3,414	(2,752)	(1,610)	(2,601)	(216)	
Plus Application of Extraordinary Federal Monies							
CARES Act	-	-	-	60,592	20,600	-	-
CRRSA Act	-	-	-	-	18,207	1,861	-
ARP Act	-	-	-	-	-	40,150	29,812
Revenue Available for Debt Service	**103,495**	**115,687**	**125,890**	**118,169**	**133,096**	**202,261**	**197,775**
Senior Debt Service	46,288	55,577	55,194	56,737	54,480	55,518	
Senior DSCR (min. 1.25x)	**2.24x**	**2.08x**	**2.28x**	**2.08x**	**2.44x**	**3.64x**	**3.44x**
Revenues Remaining After Senior DS	57,207	60,110	70,696	61,432	78,616	146,743	
Plus PFCs and Other Adjustments	28,544	32,782	45,362	27,156	28,019	45,491	
Total Revenues Available for Sub DS	85,751	92,892	116,058	88,588	106,635	192,234	
Subordinate Debt Service	15,328	15,328	28,001	28,516	28,512	28,507	
Subordinate Lien DSCR (min. 1.25x)	**5.59x**	**6.06x**	**4.14x**	**3.11x**	**3.74x**	**6.74x**	**6.01x**
Combined Debt Service	61,616	70,905	83,194	85,253	82,992	84,025	
Combined DSCR (min. 1.15x)	***2.14x***	***2.09x***	***2.06x***	***1.70x***	***1.94x***	***2.95x***	
Enplanements (000's)[2]	**9,638**	**10,519**	**11,085**	**6,681**	**7,717**	**10,689**	

Source: Hillsborough County Aviation Authority Budgets

(1) Number needed to reconcile "Projected" Budgetary Basis Financial results, as presented in the subsequent year budget, with actual Net Revenues Available to Pay Debt Service Included in February 24, 2022 Official Statement.

(2) FY 2022 enplanements are as projected in the FY 2023 Budget

Audited FY 2021 Operating Results

Audited FY 2021 operating results were satisfactory, with the ongoing impact of the pandemic-induced decline in airport activity offset in part by the application of $38.8 million in federal CARES Act Funds. Operating revenues increased 22.4% YoY, exceeding the 10.1% YoY growth in operating expenses. Net position increased by about 1.9% YoY to $1.21 billion, reflecting expenditure controls imposed by management, and the receipt of the aforementioned federal assistance.

Figure 2

Hillsborough County Aviation Authority
Summary Statement of Revenues, Expenses, and Changes in Net Position
FYE September 30 (Audited GAAP Basis) (dollars in thousands)

	2017	2018	2019	2020	2021
OPERATING REVENUES					
Airfield	$ 19,039	$ 18,808	$ 22,365	$ 16,852	$ 26,158
Terminal Buildings	48,459	54,115	58,378	40,957	55,475
Airside Buildings	21,091	23,425	25,528	24,790	28,141
Commercial Landside	106,491	120,972	129,563	82,015	93,429
Cargo	2,331	3,192	3,376	3,590	3,348
Auxiliary Airports	1,299	-	1,455	1,418	1,547
General Aviation	2,504	4,086	2,829	2,859	3,116
Federal Reimbursements	948	776	859	306	361
Other	9,988	9,307	9,109	10,266	12,425
Total Operating Revenues	212,150	234,682	253,462	183,054	224,000
OPERATING EXPENSES					
Airfield	13,301	13,621	16,803	17,332	18,325
Terminal Building	30,457	34,580	36,646	34,842	34,751
Airside Buildings	27,546	30,031	32,465	31,012	28,740
Commercial Landside	28,102	32,965	35,753	32,757	31,624
Cargo	818	870	833	941	865
Auxiliary Airports	1,687	2,114	2,068	1,812	2,301
General Aviation	1,316	1,365	1,494	1,536	1,594
Passenger Transfer System	4,452	4,695	5,043	5,187	5,986
Roads and Grounds	10,475	11,417	11,660	11,758	11,129
Other	6,859	14,000	11,253	11,595	(1,518)
Total Operating Expenses	125,012	145,659	154,016	148,771	133,797
Less: Signatory Airline Net Revenue Sharing	8,841	12,503	16,253	538	1,188
Operating Income Before Dep. and Amort.	78,297	76,519	83,193	33,744	89,015
Less: Depreciation and Amortization	81,539	103,282	150,438	128,919	126,931
Operating Loss	(3,242)	(26,762)	(67,245)	(95,175)	(37,916)
NONOPERATING REVENUES AND EXPENSES					
Interest Expense	3,135	3,864	17,579	12,279	3,474
Net Unrealized Investment Gain	(3,990)	(3,827)	10,549	4,555	(6,031)
Interest Expense	(30,342)	(51,205)	(63,656)	(63,646)	(62,206)
Loss on Disposal of Capital Assets	-	-	-	(94)	(3,880)
CARES and CRRSA Acts Airport Proceeds	-	-	-	60,592	38,816
Total Nonoperating Expenses	(31,197)	(51,168)	(35,529)	13,686	(29,827)
Change in Net Position Before Capital Contrib.	(34,439)	(77,930)	(102,774)	(81,489)	(67,743)
CAPITAL CONTRIBUTIONS					
Passenger Facility Charges	37,401	41,767	43,212	25,058	32,493
Federal and State Grants	103,823	28,046	20,473	36,515	26,592
Federal Reimbursements	78	18,243	20,959	23,282	13,572
Customer Facility Charges	35,878	33,967	31,807	17,207	17,526
Other Contributions	-	-	-	32,389	-
Total Capital Contributions	177,180	122,023	116,450	134,451	90,183
Change in Net Position	142,741	44,092	13,676	52,962	22,440
Total Net Position - Beginning of Year	936,472	1,079,213	1,123,306	1,136,982	1,189,944
Total Net Position - End of Year	1,079,213	1,123,306	1,136,982	1,189,944	1,212,384

Source: HCAA ACFRs

Unaudited FY 2022 Operating Results

Unaudited FY 2022 operating results reflect solid revenue outperformance attributable to increased spend per passenger across the facility, specifically in parking, as well as the increasing local originating market, rental car performance attributable to low inventory, and the return to ride-share operations occurring a faster pace than budgeted. Overall, operating revenues increased 39.3% YoY to $326.24 million, while operating expenses rose 15.5% to $153.9 million.

System Liquidity

The Authority continues to maintain strong liquidity balances with total available funds (operating funds plus the surplus fund balance) equivalent to $227.6 million at FYE 2021, providing approximately 621 days cash on hand ("DCOH"). According to management, TPA ended FY 2022 with 807 DCOH ($340M), with a projection of 873 DCOH at FYE. The Authority opted to exercise the purchase option on the new SkyCenter One Office Building one year early, reportedly saving the Authority approximately $7M, with the expectation that liquidity will return to approximately 620 DCOH at FYE 2023. Notably, in addition to cash and current investments, the authority maintains a $100 million line of credit with Truist Bank that, according to management, remains untapped at the time of publishing.

Figure 4

Hillsborough County Aviation Authority
Cash and Investment Balances
FYE September 30 (dollars in thousands)

	2017	2018	2019	2020	2021
Liquidity Balances					
Operating Funds					
Revenue Fund	$ 17,421	$ 19,589	$ 20,642	$ 13,386	$ 22,991
Operating & Maintenance Fund	15,164	13,664	14,464	17,714	9,085
Operating Reserve Fund	20,205	21,631	23,858	24,642	22,887
Other	1,783	1,536	2,112	1,262	3,384
Total Operating Funds	54,573	56,420	61,076	57,003	58,347
Surplus Fund	84,678	94,797	106,809	103,900	169,258
Total Funds Available	**139,251**	**151,217**	**167,885**	**160,903**	**227,605**
Debt Service Funds	82,420	84,269	124,318	118,110	108,514
Capital Improvement and Equipment Funds					
Capital Improvement and Equipment Funds	965	472	8,040	4,096	359
Rental Car Facility Fee for Future Improvements	45,098	61,219	63,135	56,476	47,464
Bond/CP/ Bank Notes Construction Funds	-	-	-	25,160	41,829
PFC Fund	38,251	56,790	68,877	66,022	63,724
Senior Bonds	17,486	41,231	268,082	166,651	75,305
Subordinate Bonds	18,176	644	87,780	57,161	24,064
CFC Bonds	58,342	14,393	10,951	9,196	1,980
Total Capital Improvement and Equipment Funds	178,318	174,749	506,865	384,762	254,726
Total Cash & Investments	**399,989**	**410,235**	**799,067**	**663,775**	**590,845**
Day's Cash on Hand Calculation					
Operating Expenses (GAAP, excl. airline net rev share)	$ 125,012	$ 145,659	$ 154,016	$ 148,771	$ 133,797
Days Cash on Hand	407	379	398	395	621

Source: HCAA and KBRA Calculations