

Tampa International Airport Revenue Bonds

Issuer: Hillsborough County Aviation Authority, FL (HCAA)

Affirmed	Rating(s)	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](#)

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Rating Summary: Tampa International Airport (TPA) is a large hub airport serving primarily origination and destination (O&D) traffic. According to FAA data, TPA served approximately 10.3 million enplaned passengers in 2018. This represented a strong 19% growth in enplanement compared to 2014. TPA projects further enplanement growth to 11.1 million in 2019, reflecting another year of strong, 6% enplanement growth. The Airport serves one of the fastest growing regions in the country where the Airport experienced a significant increase in domestic markets and cargo airline operations during 2018, resulting in significant growth in commercial activity.

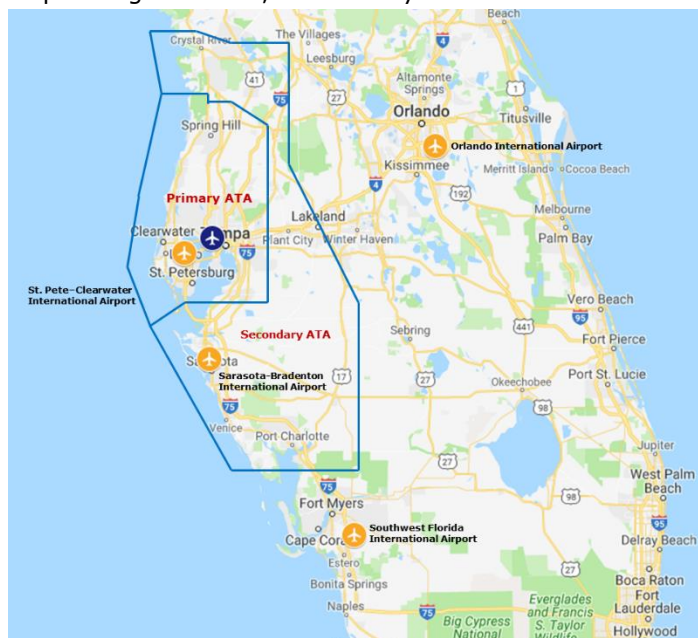
The Airport is served by a core group of airlines with no one airline holding a dominant position. Southwest Airlines was the dominant carrier in FY 2018, accounting for about 33% of enplaned passengers. The top three airlines (Southwest, Delta, and American) accounted for 66% of total enplanement, which is consistent with prior fiscal years.

TPA’s airline use and lease agreement is in effect until September 30, 2020. The agreement employs a hybrid rate-making methodology with residual landing fees and compensatory terminal rental rates. It also provides for revenue sharing, with the Authority retaining 80% of revenues remaining after all obligations have been met, and the balance divided between the signatory airlines. The Authority receives a minimum of \$20 million annually before revenues are distributed to the signatory airlines. The cost per enplaned passenger (CPE), at \$5.31 and \$5.36 during FY 2017 and FY 2018, respectively, was among the lowest for large hub airports in the U.S. The projected CPE for FY 2019 is \$4.89 and KBRA expects CPE levels to remain close to current levels as the Authority works through the completion of Phase II of its capital plan.

In KBRA’s opinion, HCAA continues to maintain favorable financial operations. Operations are largely supported by non-airline revenue sources, which represented approximately 72% of FY 2018 operating revenues. Parking is the largest source of revenue, contributing almost one-third to TPA’s total operating revenues, followed by car rentals.

Senior lien DSCR equaled 2.11x in FY 2018 and is projected at 2.23x in FY 2019. Combined lien DSCR in FY 2018 equaled 1.89x and is projected to decline to 1.85x¹ in FY 2019 as debt service ramps up slightly, with combined MADS occurring in FY 2020.

The Authority completed the concession redevelopment program during the Spring of 2019. All 69 new concession units are presently in operation. The Authority expects the concession redevelopment program to enhance concession revenues by producing a wider variety of offerings in the terminal. On the expenditure side, the Authority’s operating expenses have increased at an annual rate of 5.1% in fiscal years 2010 through 2018. On a per enplaned passenger basis, O&M expenses have grown at a CAGR of 2.3% over this period, primarily reflecting inflationary growth. Annual O&M increases have approximated budgeted levels through cost-stabilization initiatives. The Authority maintains a strong liquidity position with in excess of 340 days cash on hand in FY 2018.



¹ Combined MADS coverage includes PFC revenue available for the subordinate lien debt service.

The **Stable Outlook** reflects KBRA's expectation that passenger traffic levels will remain in line with projections. It also reflects KBRA's expectation that the Authority will avoid overleveraging and that debt service coverage levels will be maintained at or close to current levels. The outlook further reflects our expectation that growing non-airline revenues and the application of PFC revenues will continue to temper increases in airline costs.

Key Rating Strengths

- Experienced and efficient management team focused on improving the customer experience and maintaining fiscal responsibility. Management's vision to address current and future capacity issues demonstrates solid leadership.
- Diverse 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 strategically adding new domestic and international routes is supportive of continued enplanement growth.
- Track record of sound financial operations with additional financial flexibility from the ability to levy a 1.5 mil ad valorem tax which, based on current valuations, would generate approximately \$100 million/year.

Key Rating Concerns

- Significant leisure component, which may be sensitive to domestic economic environment and enplanement fluctuations.
- Rideshare services have added some pressure to TPA's parking and rental car revenues.

Drivers for Rating Change

- More consistent pattern of passenger traffic growth with a greater mix of non-leisure passengers
- Increased diversification of the local economy.
- Significant erosion in passenger traffic.

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TPA Airport Statistics		
Primary Airline	Total Available Seats	Total Available Seats 10-Yr CAGR
Southwest Airlines	4,401,195	1.9%
Primary Carrier Yield at TPA	Primary Carrier Systemwide Yield	Primary Carrier Yield Relative to System
14.9%	16.1%	93%

	TPA	Competing Airports ¹	All U.S.
Total Enplanements	10,347,029	29,589,988	897,515,407
Enplanements 5-Yr CAGR (2013-2018)	4.51%	6.32%	3.90%
Load Factor	83.95%	84.28%	83.00%

TPA Financial Highlights			
	2016	2017	2018
Revenue Available for Debt Service	100,074,407	98,688,492	109,234,140
Senior Debt Service	49,006,000	46,116,000	56,029,842
Senior DSCR (min. 1.25x)	2.23x	2.34x	2.11x
Revenues Available for Subordinate Lien D/S	60,297,798	61,808,078	62,437,736
PFC Rev Available for Sub Debt	19,727,203	13,481,014	16,463,058
Subordinate Debt Service	21,573,000	15,328,000	15,328,131
Subordinate Lien DSCR (min. 1.25x)	3.71x	4.91x	5.15x
Combined DSCR (min. 1.15x)	1.83x	1.98x	1.89x

¹ Competing airports include: St. Pete-Clearwater International Airport, Sarasota-Bradenton International Airport, Southwest Florida International Airport, and Orlando International Airport

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-

RD 1: Management

KBRA views HCAA’s governing structure, policies and procedures, and management background and experience as **Favorable**.

TPA and three general aviation airports in Hillsborough County are owned by the Authority and collectively known as the Airport System. The Authority was created as an independent special district pursuant to Chapter 2003-370, Laws of Florida, Acts of 1945, with exclusive jurisdiction, control, supervision and management over all publicly owned airports in Hillsborough County.

The Airport is operated with a focus on customer service, efficiency, and cost effectiveness, with actual performance data driving strategic operations. Although the Authority operates on a self-supporting basis, it has the ability to levy a 1.5 mill ad valorem tax. The Authority has not levied the tax since 1973 and currently has no plans to do so.

Governance

The Authority is governed by a five-member Board consisting of three residents of the County appointed by the Governor for four-year terms, the Mayor of the City of Tampa, ex officio, and a Commissioner of Hillsborough County selected by the Board of County Commissioners, ex officio, for a one-year term. Each member continues to serve until a successor has been selected. The Chief Executive Officer (CEO) is hired by the Board, and is responsible for day-to-day administration, management and operation of the Authority in accordance with policy established by the Board, and the performance of other duties as authorized by the Board. The Board adopts an annual budget prepared by the CEO before October 1. Approximately 7,000 people are employed at TPA, including 690 Authority employees.

The Authority has enacted various procedures to ensure that operations are effectively maintained, and potential risks accounted for. The Authority would benefit from formalized plans or policies for enterprise risk management, succession and continuity planning or debt, however, KBRA believes management has the necessary measures in place to assure effective operation of Authority facilities. In KBRA’s view, management is very capable, as underscored by TPA’s ranking as a 3rd place winner of the Airport Council International (ACI) Best Airport in North America Service Quality Award in 2017. 2017 marked the sixth consecutive year that TPA was recognized by ACI as one of the top-five airports in North America. KBRA also notes that the management team has successfully managed the completion of a significant portion of its three-phase capital plan on time and within budget.

RD 2: Economics/Demographics of the Service Area

KBRA continues to view the economic and demographic characteristics of TPA’s service area as strong based upon a history of population growth and economic diversification, which are supportive of demand for air travel and rental car services at the airport.

TPA is located approximately six miles west of downtown Tampa in Hillsborough County, FL. The air trade area is the Tampa-St. Petersburg-Clearwater Metropolitan Statistical Area (MSA). The MSA consists of Hillsborough County, Hernando County, Pasco County, and Pinellas County. TPA’s secondary air trade area² that extends to the Orlando International Airport’s (MCO) service area. MCO, the busiest airport in Florida, and is located 84 miles northeast of TPA. In FY 2017 MCO recorded 22.8 million revenue enplanements and 470 daily departures, compared with TPA’s 10.3 million revenue enplanements and 252 daily departures.

The MSA population grew to 3.1 million people in 2018, an increase of almost 13% since 2010, placing it among the fastest growing metropolitan areas in the United States.

² Secondary air trade area includes: Citrus, De Soto, Hardee, Manatee, Sarasota, Sumter, and a portion of Polk County.

Hillsborough County is the largest county in the air trade area by population with 1.4 million residents, followed by Pinellas County with 970,637.

The MSA’s housing market has outperformed the U.S. since 2000 and home value appreciation has resumed over the last six years after declining precipitously during the Great Recession. KBRA views the trend of rising home values as supportive of local wealth levels which are, in turn, an important driver of air travel activity.

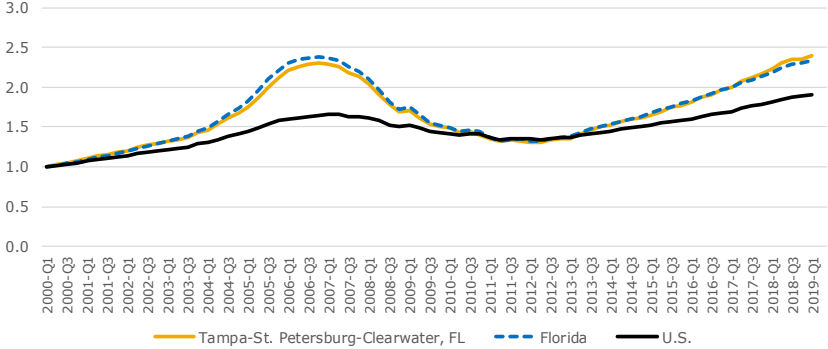
As of Q1 2019, MSA home values had fully recovered to 104% of their previous cyclical high. In contrast, home values in the State of Florida have only recovered to 98% of their pre-recession peak, while home values nationally recovered to 115% of their peak. (Figure 1).

The economic base of the MSA and air trade area continues to recover from the Great Recession. Gross regional product shows a compound annual growth rate of 2.1% between 2010 and 2017, which is on par with the State and nation.

MSA unemployment rates generally mirror that of the State and the nation, particularly for Hillsborough County. As shown in Figure 2, unemployment in the air trade area has declined sharply from recessionary highs. KBRA views the MSA and air trade area’s post-recession employment recovery as supportive of continued growth in air travel demand.

Figure 1

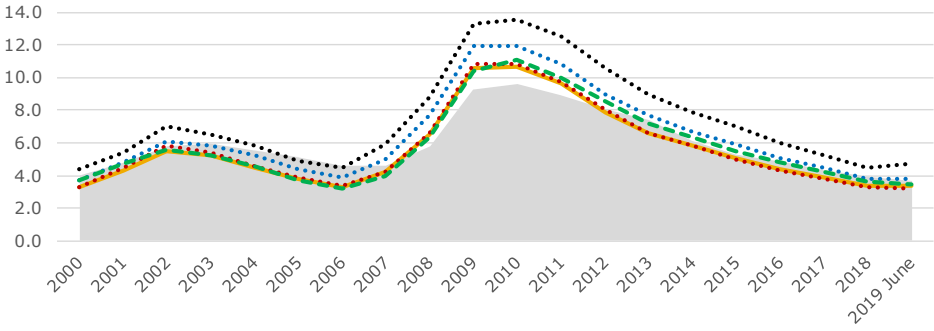
**Home Values Indexed to 2000-Q1
2000-Q1 to 2019-Q1**



Source: Federal Housing Finance Authority (FHFA), All-Transactions Indexes, Not Seasonally Adjusted

Figure 2

**Trends in Unemployment Rates
Air Trade Area*, Florida, and U.S.**



	2010	Current (June 2019)
Hillsborough	10.7	3.4
Hernando	13.5	4.7
Pasco	11.9	3.8
Pinellas	10.8	3.2
Florida	11.1	3.5
U.S.	9.6	3.7

Source: Bureau of Labor Statistics
* Air Trade Area consists of Hillsborough County, Hernando County, Pasco County, and Pinellas County

The air trade area exhibits above average wealth levels. Income per capita in 2017 was \$30,738, which was equivalent to 103% of the state average. The MSA’s poverty rate is 13.9%, lower than the State at 14.1% but higher than the U.S. at 13.4%.

Business Environment Lends Support to O&D Traffic

The Tampa Bay area is a popular vacation destination and a growing business center. In 2018, Hillsborough County welcomed 23.6 million visitors (an increase of 2.6% YOY or 59% from 2009) and recorded total visitor spending of \$4.2 billion (a 6.9% YOY increase). Approximately 53,400 jobs in the Tampa Bay area are sustained by tourism. Tourism performance has remained robust through the second quarter of 2019, with tourism revenue up 15.8% on a YOY basis.

In addition to leisure-related activities, the overall business environment in the ATA has continued to rapidly diversify. In 2018, five of the 18 Fortune 500 companies that are headquartered in Florida are based in the ATA or secondary ATA. KBRA notes, however, that despite economic diversification, much of the region’s employment drivers, including tourism and retail, which are highly sensitive to changes in macroeconomic conditions. Only education and health services are more resilient to economic downturns.

Port Tampa Bay (“the Port”) is among the top 30 largest U.S. seaports by tonnage and has a growing cruise industry presence. The activities of the Port contribute to passenger demand at TPA. The ATA has a vibrant trucking industry, reinforced by a developed network of interstate highways that connects the ATA to various major U.S. markets including Orlando, Daytona Beach, Miami, Atlanta, Cincinnati, and Detroit. CSX Corporation provides freight rail service from the ATA to other major freight hubs and ports east of the Mississippi River.

RD 3: Airport Utilization

KBRA views the utilization profile of TPA as strong, with a trend of healthy and steadily growing O&D enplanements and limited airline concentration. As a large air traffic hub, TPA ranks as the 28th busiest airport in the U.S based on FAA’s preliminary 2018 enplanements. The airport system consists of TPA, and three general service airports: Peter O. Knight Airport, Plant City Airport and Tampa Executive Airport. TPA has three runways, connected to a fully integrated system of taxiways.

The passenger terminal facilities consist of a main terminal building and 4 active airside buildings (A, C, E, and F) with a total of 58 gates that are connected to the main terminal building by a fully automated elevated passenger transfer system. The airside terminals can simultaneously accommodate multiple wide-body aircraft. Adjacent to the main terminal are parking garages, and rental car facilities. The landside terminal includes a 300-room Hyatt hotel.

TPA Service and Destinations

The airport is presently served by 24 carriers plus charter carriers. TPA’s 113 daily ultra-low-cost carrier flights as of July 2019 served over 50% of enplaned passengers. Service is largely focused on O&D traffic with connecting enplanements representing less than 10% of overall enplanements in 2018. Currently, the Airport offers nonstop flights to 70 domestic and 17 international destinations with a total of 252 daily departures. International destinations include 7 cities in Canada, 6 cities in Caribbean/Latin America, and 4 cities in Europe.

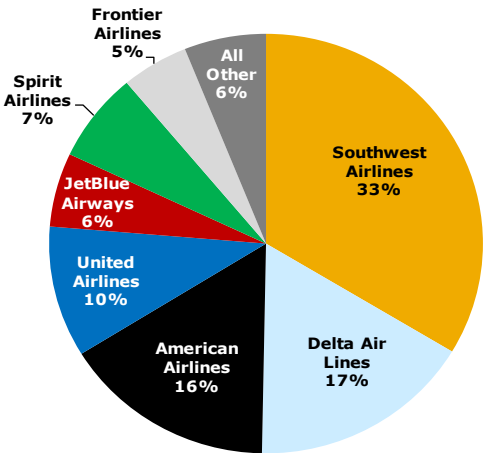
Share of Enplaned Passengers by Airline

Figure 3 shows the market share of TPA’s major airlines. While Southwest Airlines is the primary carrier with consistent market share of approximately 33% over the past 3 years, TPA benefits from a diversity of air carriers reflecting the composition of enplanement activity (largely O&D itineraries) and the appeal of the Tampa Bay MSA market to an array of carriers. Worth mentioning, beginning in 2014, Spirit and Frontier Airlines experienced rapid enplanement growth by adding new routes and increased service to TPA. Meanwhile, JetBlue’s market share has continued to decline slightly over the past 5 years, due to a combination of a discontinuation of service from New York’s LaGuardia Airport and competition from other low-cost airlines. In KBRA’s view, TPA benefits from limited airline concentration and its mainly O&D nature confers stability.

Value to Carriers

Load factors at TPA are high. Southwest’s TPA load factor exceeded its systemwide average by 1.1 point and by 0.61 point for CY 2018, suggesting that the routes are strong performers. Airline yield as of CY 2018, defined as airline revenue per passenger mile lagged the systemwide average for Southwest by 1.2 points. KBRA believes that TPA’s low cost per enplanement and high load factors offset relatively low fares and contribute to favorable profitability for airlines operating here.

Figure 3
Total Enplaned Passengers by Airline
CY 2018
10.5 Million

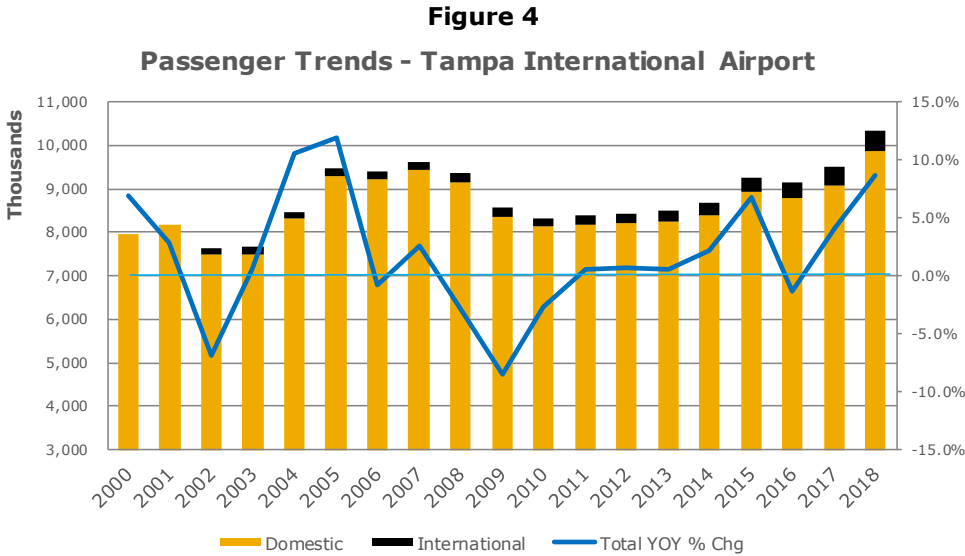


Source: Hillsborough County Aviation Authority

Enplanement Trends

TPA’s 2.7% CAGR of total enplanements for the period CY 2010-2018 has somewhat lagged the 3.1% growth rate experienced by other large U.S. hubs, but enplanement growth has accelerated over the past two years. Recovery following the financial crisis was relatively weak, with most of TPA’s enplanement growth in the post-recessionary period occurring after 2015. (Figure 4). In 2018, TPA served approximately 10.5 million enplaned passengers³. This represented a very strong 9.1% growth in enplanements compared to 2017 and exceeded the 3.9% average YOY growth rate of other large hubs. Domestic traffic in 2018 increased by 8.7% and international traffic increased by 8.5%. The Airport expects to see enplanement growth of 4.4% for the year ending September 30, 2020, based on data as of the end of August 2019.

According to the Authority, TPA served a record 21.3 million passengers in 2018, reflecting an increase of 8.5% over 2017. Based on airline schedules, TPA anticipates that total enplanement will increase to 23.3 million in FY 2020. Expectations for continued passenger growth are driven by strong domestic and international demand for air travel.



	CAGR since 2010	Total % Chg. Since 2010
Domestic	2.5%	21.4%
International	11.2%	133.4%
Total	2.7%	24.1%

SOURCE: Bureau of Transportation Statistics T-100 Market data

Impact of the Grounding of Boeing 737-Max 8

The Airport has seen a minor reduction in traffic due to the impact on Southwest’s operations of the grounding of its 737-Max 8 aircraft. According to management, for the fiscal year-to-date, Southwest’s traffic is down by 2.0% on a 0.7% decline in capacity. Despite the 737-Max 8 issues, American Airlines continues to grow in Tampa, with traffic increasing by 4.1% YOY on a 7.2% increase in capacity. American Airlines had seen an increase in TPA flight operations of 5.0% YOY prior to the grounding of its Max 8 planes. Both carriers increased capacity by up-gauging aircrafts in the market.

Cargo Operations

Cargo operations at TPA almost doubled in FY 2018 after a period of decline between FY 2014 and FY 2016. Two large Amazon Fulfillment Centers near the ATA as well as the introduction of Amazon cargo freighter service in CY 2016 and a UPS relocation from St. Pete-Clearwater International Airport in October of 2017 have helped boost cargo operations at the Airport. According to the FAA, TPA handled approximately 635.0 thousand tons of cargo in CY 2018, which represented a 48.9% increase from CY 2017 and a more than 300% increase from its 2010 landed weight.

³ Enplanement according to HCAA.

RD 4: Airport Debt/Capital Needs

Master Plan Projects

In 2012, the Authority embarked on a three-phase capital plan with a potential cost of as much as \$2.5 billion. Phase I focuses on decongesting the Airport’s roadways and passenger drop-off and pick up areas. Phase II prepares the Airport infrastructure and enables future expansion needs undertaken in Phase III. Phase I Projects were completed on time and within budget in 2018.

Phase II and III of the Master Plan are projected to cost a combined \$1.6 billion, of which, Phase II of the Master Plan would cost approximately \$543.8 million, portion of it were funded with 2018 bond proceeds. Phase II projects include projects to expand curbside capacity and to continue preparation for construction of the future Airside D facility in the Master Plan Phase III. The Authority anticipates the Phase II projects to be completed by 2023. Phase III projects are anticipated to begin in 2026.

Capital Improvement Program

In addition to the Phase II & III Master Plan projects, HCAA is undertaking a list of capital projects identified in the Authority’s FY 2018-2028 Capital Improvement Program (CIP). These CIP projects have a total anticipated cost of \$1.4 billion. The CIP intends to refurbish and improve existing facilities and infrastructure to accommodate the Airport’s projected 14 million passengers.

Funding Plans

HCAA tentatively expects to fund portions of the Phase II & III Master Plan projects, as well as the additional CIP projects, through the issuance over the next five years of approximately \$774.7 million GARBs and approximately \$312 million in new subordinated PFC-backed bonds. The remaining portion of the Master Plan and other CIP projects will be funded through the Airport’s ongoing CIP sources such as bank notes/bond proceeds, airport operations, and various grants.

The FY 2020 portion of the CIP totals \$123.6 million.

Outstanding Authority Obligations

TPA’s pro forma debt portfolio and maximum annual debt service coverage are summarized in Figures 5 and 6.

The Authority first issued subordinated debt 2013. In addition to a subordinate lien on general airport revenues, the subordinate bonds are additionally secured by a subordinate lien on available PFC revenues after payment of senior lien PFC-supported debt service. There are presently no outstanding bonds secured solely by PFC revenues; such bonds, if issued, would have a prior lien on PFC revenues superior to both the senior and subordinate PFC bonds.

Figure 5

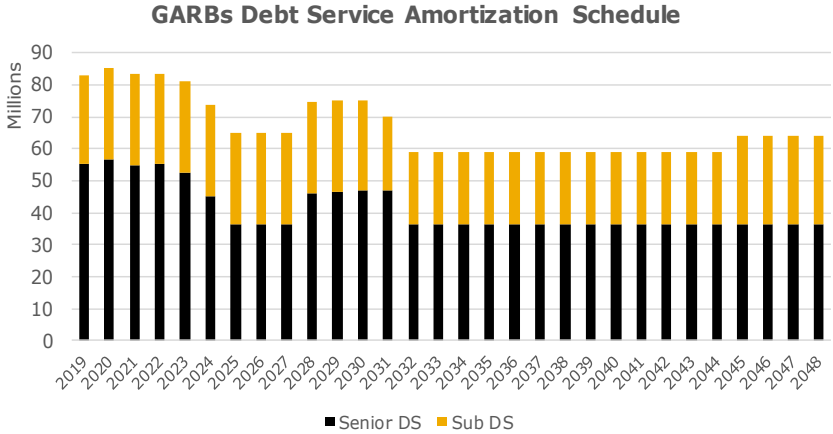
TPA's Debt Portfolio	
<i>As of September 30, 2019</i>	
Senior Lien GARBs	944,685
Subordinate Lien GARBs (PFC Funded)	408,970
Sub-total GARBs	1,353,655
Customer Facility Charge Bonds	383,325
Total Bonds Outstanding	1,736,980

Source: Hillsborough County Aviation Authority

The Authority’s outstanding indebtedness is entirely fixed-rate, and there are no outstanding interest rate swaps. As shown in Figure 6, the GARBs have a final maturity of 2048. On a combined lien basis, MADS of \$85.3 million occurs in 2020. Based on the Authority’s FY 2020 Proposed Budget projections, revenues available for debt service are expected to provide 2.08x and 1.76x MADS coverage on the senior lien GARBs and combined lien GARBs, respectively.

The Authority has a \$100 million revolving credit agreement with SunTrust Bank. Draws are based on an estimated funding needs schedule submitted by the Authority semi-annually, projecting the monthly funding needs for the upcoming six months. Each draw on the revolving credit agreement is tied to a specific project or group of projects. The Authority covenanted in the revolving credit agreement that any bond proceeds of senior bonds, subordinate bonds, and grant proceeds received to refinance costs associated with any project initially financed with agreement draws will be used first to repay draws made specifically for that project. Drawn amounts are payable from the surplus fund on a subordinate basis to both the senior and subordinate revenue bonds.

Figure 6



	MADS Year	MADS (\$)	Pro forma MADS Coverage
Senior	2020	56,738,121	2.08x
Combined	2020	85,253,752	1.76x

Source: Hillsborough County Aviation Authority

Notwithstanding Capital Program Scope, Debt Levels Remain Manageable

The Authority’s debt levels are expected to remain in the moderate range, due to the extensive availability of non-GARB funding sources. HCAA intends to maintain aggregated annual debt service at roughly \$83 million per year post-Phase II of the CIP. The Authority is finalizing its plans for Phase III of the Master Plan, which will require approximately \$1 billion of additional funding.

RD 5: Airport Finances

KBRA views the Airport’s finances as very strong. Sound management practices, financial planning, and expenditure controls have contributed to a trend of relatively low airline costs, sound debt service coverage and very strong liquidity.

Financial operations are governed by the provisions of the senior and subordinate trust agreements, which establish the various funds, flow of funds and the rate covenant. Operations are also a function of the airline-airport use and lease agreement (“Airline Agreement”), which lays out the financial obligations of both the airport and airlines and determines the airport’s rate setting and cost recovery mechanism. In October 2013 the Airline Agreement was extended to September 30, 2020. The Airline Agreement features a hybrid rate setting methodology with a residual landing fee and compensatory terminal rental rate.

Airline costs at TPA are moderated by a revenue sharing agreement with the signatory airlines. Amounts distributed to the airlines through revenue sharing totaled \$9.6 million in 2018 and are expected to total \$15.8 million in 2019.

The Airline Agreement establishes cost and revenue centers that are used for purposes of accounting for revenues, operating expenditures, and investment. Signatory airlines are required to lease space throughout the term of the agreement and to provide a guarantee of the Authority’s debt coverage requirement. In return, signatory airlines receive rebates of debt service coverage, and a 20% share of remaining surplus revenues (revenues less expenditures less the operating reserve requirement less debt service) through the revenue sharing agreement. The 20% share of surplus revenue is eliminated if the Authority’s share falls below \$20 million. The signatory airlines’ share rises to 25% for any portion of surplus revenues in excess of \$37.5 million. Non-signatory airlines do not participate in revenue sharing and do not receive any reimbursement for excess debt service coverage charges. Annual rates and charges are initially calculated based on the annual budget and are reviewed and adjusted as necessary throughout the fiscal year to ensure that sufficient revenues are generated to meet the requirements of the trust agreement.

Financial Performance and Debt Service Coverage

Airport operating margins have been healthy at 50%-55% in each of the last three years. Airline revenues have shown steady YOY increases during this period and have consistently accounted for about 29% of total annual operating revenues. Non-airline revenues continue to perform well and grew by a CAGR of 5.2% from FY 2010 to FY 2018.

Parking is the largest non-airline revenue source, followed by car rentals and concessions. Non-airline revenues per enplanement, which have exceeded \$14.00 since 2011, grew to a very strong \$17.03 in FY 2018. Projected non-airline revenues for FY 2019 and FY 2020 are \$194 million and \$193 million, respectively. The Airport completed its concession redevelopment program in the spring of 2019, with 69 new high-end establishments strategically arranged on the basis of customer feedback. The concession redevelopment program is anticipated to further increase non-airline revenues. KBRA views the revenue diversity of the airport as a positive credit factor (Figure 7). Of note, the Airport received first and second place titles by ACI-NA for various categories of concession establishments in CY 2018.

KBRA notes that ridesharing companies began operating legally in Florida since July 2017. HCAA signed and approved a contract with Uber, Lyft, and Wingz that allows these ridesharing companies to pick up and drop off customers at the Airport. In return, since 2018 these companies have paid a per-pick-up charge of \$3, which will increase to \$5 effective October 1, 2019. Ridesharing services could compete with existing ground transportation services and therefore create some pressure on the Airport's parking facility revenues. In FY 2018, ridesharing had no impact on ground transportation revenue, however, it is projected to limit ground transportation revenue growth to 0.9% in FY 2019. With the per-pick-up charge on ridesharing, total ground transportation revenue is expected to grow at over 4% YOY, which the Authority expects to be sufficient to recover all of the Airport's ground transportation expenses by the end of the three-year phase in period.

Figure 7

Hillsborough County Aviation Authority Tampa International, Peter O Knight, Plant City & Tampa Executive Airports Comparison of Operating Revenues Budgetary Basis \$ in thousands					
	2016 Actual	2017 Actual	2018 Actual	2019 Projected	2020 Proposed Budget
Passenger Airline Landing Fees	\$15,963	\$17,262	\$17,597	\$18,908	\$19,649
Main Terminal Rentals	\$23,858	\$24,576	\$27,201	\$29,252	\$30,092
Airside Rentals	\$18,850	\$20,763	\$22,749	\$25,399	\$26,469
Total Passenger Airline Revenue	\$58,671	\$62,601	\$67,547	\$73,559	\$76,210
Concession Revenues	\$60,336	\$59,589	\$70,628	\$75,236	\$78,840
Ground Transportation Revenue	\$70,077	\$68,455	\$74,271	\$77,390	\$81,039
Cargo Revenue	\$2,999	\$3,530	\$5,133	\$5,522	\$5,799
TSA Revenues and Reimbursements	\$1,387	\$1,478	\$1,318	\$1,259	\$1,253
General Aviation	\$3,505	\$3,803	\$4,086	\$4,297	\$4,441
Other Revenues	\$11,767	\$13,302	\$13,727	\$14,167	\$14,360
Interest Income	\$4,180	\$3,135	\$3,864	\$16,235	\$7,588
Total Operating Revenues	\$212,923	\$215,893	\$240,573	\$267,665	\$269,529
Airline Revenues	\$58,671	\$62,601	\$67,547	\$73,559	\$76,210
<i>y-o-y % growth</i>	-0.6%	6.7%	7.9%	8.9%	3.6%
Non-Airline Revenues	\$154,252	\$153,292	\$173,026	\$194,106	\$193,319
<i>y-o-y % growth</i>	4.9%	-0.6%	12.9%	12.2%	-0.4%
Airline Revenues as % of Total Rev	27.6%	29.0%	28.1%	27.5%	28.3%
Non-Airline Revenues as % of Total Rev	72.4%	71.0%	71.9%	72.5%	71.7%
Net Airlines Fees and Charges	\$44,834	\$41,917	\$54,079	\$54,549	\$59,890
Airline Revenue Sharing	\$9,867	\$8,841	\$9,578	\$15,659	\$14,582
Airline Settlement			\$1,516	\$1,074	
ASIP Waivers			\$2,375	\$2,276	\$1,739
Total Airline Fees and Charges	\$58,670,854	\$62,601,121	\$67,547,015	\$73,558,701	\$76,210,235
CFC & TFC Collection*	\$44,834	\$41,917	\$44,381	\$44,614	\$45,521

Source: Hillsborough County Aviation Authority Budgets

*Customer Facility Charge and Transportation Facility Charge

Figure 8 shows historic, 2019 projected and 2020 proposed budgeted revenue available for debt service. Both senior and subordinate lien coverages are expected to remain above their respective 1.25x DSC requirements, and combined lien debt service is projected to remain above its 1.15x DSC requirement over this period.

Figure 8

Hillsborough County Aviation Authority Tampa International, Peter O Knight, Plant City & Tampa Executive Airports Debt Service Coverage Ratios Budgetary Basis \$ in thousands					
	2016 Actual	2017 Actual	2018 Actual	2019 Projected	2020 Proposed Budget
Net Operating Revenues	\$212,923	\$215,893	\$240,573	\$267,665	\$269,529
Operating Expenses	\$112,849	\$117,204	\$131,339	\$144,634	\$151,314
Funded by CFC Charges	-	-	-	-	-
Revenue Available for Debt Service	\$100,074	\$98,688	\$109,234	\$123,031	\$118,215
PFC Revenues for Senior D/S (2009A Bonds)	\$9,229	\$9,236	\$9,233	-	-
Senior Debt Service	\$49,006	\$46,116	\$56,030	\$55,194	\$56,738
Senior DSCR (min. 1.25x)	2.23x	2.34x	2.11x	2.23x	2.08x
Revenues Available for Subordinate Lien D/S	\$60,298	\$61,808	\$62,438	\$67,837	\$61,477
PFC Rev Available for Sub Debt	\$19,727	\$13,481	\$16,463	\$30,982	\$31,497
Subordinate Debt Service	\$21,573	\$15,328	\$15,328	\$28,001	\$28,516
Subordinate Lien DSCR (min. 1.25x)	3.71x	4.91x	5.15x	3.53x	3.26x
Combined Debt Service	\$70,579	\$61,444	\$71,358	\$83,194	\$85,254
Combined DSCR (min. 1.15x)	1.83x	1.98x	1.89x	1.85x	1.76x

Source: Hillsborough County Aviation Authority Budgets

HCAA received \$26.7 million of PFC revenues in FY 2018 and expects to receive \$31.0 million of PFC revenues in FY 2019. The funds were made available for both PFC supported debt service and capital projects. Figure 9 shows additional airport metrics based on TPA's historic performance. KBRA expects some of these ratios, such as cost per enplanement and debt service per enplanement, to trend upward based on the current CIP and borrowing plan.

Figure 9

Additional Airport Metrics					
	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual
Enplaned Passengers (by HCAA)	8,673,747	9,263,336	9,485,879	9,638,070	10,159,247
Cost Per Enplanement	\$5.23	\$5.26	\$5.02	\$5.31	\$5.36
Debt Service Per Enplanement	\$9.15	\$8.48	\$7.44	\$6.38	\$7.02
Operating Margin	50.8%	51.5%	53.0%	54.3%	54.6%
DCOH	368	450	400	483	343
Non-Airline Revenue per enplaned passengers	\$15.97	\$15.88	\$16.26	\$15.90	\$17.03

Source: Hillsborough County Aviation Authority Budgets

Passenger Airline Cost Per Enplanement (CPE)

Airline costs per enplanement are in the low range, averaging \$5.17 over the most recent five years. Projected FY 2019 and FY 2020 CPE equal \$4.89 and \$5.15, respectively. TPA's generally level debt service and PFC support help to moderate the capital plan's impact on CPE, which is not expected to rise considerably despite the significant increase in GARB debt.

System Liquidity

The Airport has historically maintained substantial levels of unrestricted cash, which have grown in recent years. The Airport is required by the senior bonds trust agreement to hold approximately two months of operating expenses within an operating reserve. As of September 30, 2018, available funds were sufficient to cover over 343 days of operating expenses.

Figure 10

HCAA Audited Financials Summary of Statements of Revenues, Expenses, and Changes in Net Position (\$'000)					
	2014	2015	2016	2017*	2018
Net Position Beginning of FY	747,522	747,522	825,656	936,472	1,079,213
Operating Rev.	194,605	205,405	209,483	212,150	234,682
Operating Ex.	102,985	108,172	119,473	125,012	145,659
Signatory Airline Net Rev Sharing	(9,012)	(10,535)	(9,867)	(8,841)	(12,503)
Operating Income before D&A	82,608	86,699	80,143	78,297	76,519
Depreciation and Amortization	89,362	93,570	84,738	81,539	103,282
Net Op. Income	(6,754)	(6,871)	(4,595)	(3,242)	(26,762)
Non-Op-Rev(Ex)	23,215	(9,907)	155,015	(31,197)	(51,168)
Total Capital Contributions	68,673	94,913	152,228	177,180	122,023
Change in Net Position	38,704	78,134	114,406	142,741	44,092
Net Position End of FY	786,226	825,656	940,062	1,079,213	1,123,306

Source: HCAA CAFRs

*FY2017 numbers are restated

Figure 11

HCAA Audited Financials Summary of Statement of Net Position (\$000)					
	2014	2015	2016	2017*	2018
ASSETS					
Current Assets	115,283	181,201	270,261	287,744	238,930
Capital Assets, Net	1,149,446	1,244,227	1,582,218	1,921,351	1,957,723
Other Non-Current Assets	156,321	763,144	449,248	168,578	193,675
Total Assets	1,421,050	2,188,572	2,301,728	2,377,673	2,390,328
DEFERRED OUTFLOWS OF RESOURCES					
Deferred Loss on Refunding of Debt	2,827	2,171	1,649	1,791	2,241
Deferred Outflows on Pension Related Amounts	2,824	5,600	17,741	20,021	20,471
Total Deferred Outflows of Resources	5,651	7,771	19,389	21,812	22,713
LIABILITIES					
Current Liabilities	115,789	120,764	156,902	143,365	119,872
Non-Current Liabilities	549,397	1,244,266	1,225,805	1,172,826	1,163,480
Total Liabilities	665,186	1,365,030	1,382,707	1,316,191	1,283,352
DEFERRED INFLOWS OF RESOURCES					
Deferred Gain on Refunding of Debt	2,449	1,812	1,624	1,324	904
Deferred Inflows on Pension Related Amounts	11,543	3,843	314	2,363	4,529
Deferred Inflows on OPEB Related Amounts	-	-	-	394	1,097
Total Deferred Inflows of Resources	13,993	5,655	1,938	4,081	6,530
NET POSITION					
Net Investment in Capital Assets	618,609	687,705	813,780	907,382	955,809
Restricted	99,023	59,082	55,966	94,081	90,810
Unrestricted	29,889	78,869	66,726	77,751	76,687
Total Net Position	747,522	825,656	936,472	1,079,213	1,123,306

Source: HCAA CAFRs

*FY2017 numbers are restated

RD 6: Legal Mechanics and Security Provisions

KBRA views the legal mechanics and security provisions of the bonds, set forth in the senior and subordinated trust agreements, as providing strong levels of bondholder protection. Both senior and subordinate lien bonds are payable from net airport revenues, after operating expenses (see Appendix for Flow of Funds). Revenues are defined as all rates, fees, rentals and other charges or income received by the Airport.

PFC Revenues and PFC Bonds

The Authority has no outstanding standalone PFC Bonds, but certain subordinated lien Airport Revenue bonds are additionally secured by PFC revenues. The pledging of PFC revenues to specific bond issue repayment lowers airline costs. The PFC revenues flow through both the senior and subordinate waterfall prior to being used for FAA-approved PAYGO purposes. Figure 12 summarizes the major legal mechanics and security provisions of the bonds.

The rate covenant requires 1.25x annual debt service for senior lien bonds and 1.25x annual debt service for subordinate lien bonds. There is also a combined lien coverage requirement of 1.15x annual debt service. The documents set forth restrictive additional bonds tests for both lien classes and establish senior and subordinate lien debt service reserve funds. The senior lien debt service reserve fund is required to hold an amount equal to maximum annual debt service (MADS), while the subordinate lien reserve is funded at the lesser of MADS, 1.25x average annual debt service, or 10% of bond proceeds.

Figure 12

Hillsborough County Aviation Authority, Airport Revenue Bonds						
Airport Revenue Bond Trust Agreement	Revenue Pledge	Rate Covenant (no PFC)	Rate Covenant (PFC)	Additional Bonds Test	Debt Service Reserve Fund	Flow of Funds
Senior Lien	Net Airport System Revenue Pledge	1.25x Annual Senior Lien Debt Service. Surplus Revenues can be applied to satisfy test but rates must always equal 1.00x annual operating expenses and debt service	1.25x Annual Senior Lien Debt Service. Surplus Revenues can be applied to satisfy test but rates must always equal 1.00x annual operating expenses and debt service	Historic 1.25x coverage in 12 consecutive months of past 18, OR , Prospective 1.25x debt service coverage over minimum 5 year test period including revenue adjustments	Maximum Annual Debt Service	Closed Flow of Funds
Subordinate Lien	Net Airport System Revenue Pledge	1.25x Annual Subordinate Lien Debt Service. Same surplus rules as senior test	1.15x Annual Subordinate Lien Debt Service	Historic 1.25x coverage in 12 consecutive months of past 18, OR , Prospective 1.25x debt service coverage over minimum 5 year test period including revenue adjustments	The lesser of MADS, 125% of average annual debt service, or 10% of original principal amount.	Closed Flow of Funds

Source: The Hillsborough County Aviation Authority Airport Revenue Bond Trust Agreements and related issuing documents

Bankruptcy Assessment

KBRA has consulted outside counsel on bankruptcy matters and the following represents our understanding of the material bankruptcy issues. KBRA understands that to be a debtor under the municipal bankruptcy provisions of the U.S. Bankruptcy Code (Chapter 9), a local governmental entity must, among other things, qualify under the definition of "municipality" in the Bankruptcy Code, and must also be specifically authorized to file a bankruptcy petition by the State in which it is located. The Authority meets the definition of municipality, as it is a public body corporate and an independent special district of the State of Florida. As to authorization, Florida law generally permits municipal entities to seek Federal bankruptcy relief, but this authority is limited by a separate companion statute prohibiting certain local governmental entities (defined to include special districts) from seeking such relief except with the prior approval of the governor. Accordingly, KBRA believes it likely that a bankruptcy court reviewing any Chapter 9 filing by the Authority would require, among other conditions to eligibility, that the Authority has received prior permission from Florida's governor.

A. Pledged Net Revenues as Special Revenues under the Bankruptcy Code

Because the revenues pledged for payment of the senior bonds and subordinated bonds are generated by the airport system, as part of the aviation transportation projects and systems owned by the Authority, KBRA understands that the Revenues will qualify as "special revenues" as that term is defined in the Bankruptcy Code. There are separate protections in Chapter 9 for revenue bonds that fall within those special revenues definitions. Assuming there is no shortfall of funds to make debt service, given that the Bonds should be considered revenue bonds secured by a pledge of special revenues it is KBRA's understanding that, if the Authority were authorized to file for protection under Chapter 9, it should generally be expected that such filing should have little to no effect on the payment of the Bonds during the bankruptcy case.

That stated, there are several additional issues that arise. If the Authority were to become a debtor in a proceeding under Chapter 9 of the Bankruptcy Code, the bankruptcy court could possibly decide that (i) post-bankruptcy revenue bond payments by the Authority are merely optional and not mandatory under the special revenues provisions of the Bankruptcy Code and/or (ii) the automatic stay exception for special revenues in those provisions does not apply (including to possible enforcement action by the Trustee) or is limited to amounts then on hand with the Trustee or the Authority. If the bankruptcy court were to interpret the Bankruptcy Code in that (or a similar) fashion, the parties to the proceedings may be prohibited for an unpredictable amount of time from taking any action to collect any amount from the Authority, or from enforcing any obligation of the Authority, without the bankruptcy court's permission. However, it is KBRA's understanding that such a ruling would be contrary to historical experience in Chapter 9, and the clear intent of Congress regarding the continued payment of municipal revenue bonds post-bankruptcy, as expressed in the legislative history for the special revenues amendments to Chapter 9 and as interpreted in properly reasoned existing (albeit limited) case precedent under Chapter 9.

Assuming the revenues pledged are in fact determined to be "special revenues," the Bankruptcy Code provides that, to keep revenue-generating municipal assets operating, special revenues can be applied to necessary operating expenses of the project or system ahead of all other obligations – including bondholder payments. This rule applies regardless of contrary provisions of the transaction documents, if such governing documents do not adequately provide for payment of necessary operating expenses. In determining necessary operating expenses for the airport system, in a Chapter 9 case the bankruptcy court thus may not be limited by the provisions governing the flow of funds or that define operating expenses, in the Trust Agreements or other bond issuance documents. In addition, while there is no case law from which to make a definitive judgment, it is possible that, in the context of confirming a plan of adjustment in a Chapter 9 case where the plan has not received the requisite consent of the holders of the senior bonds or the subordinated bonds, a bankruptcy court may confirm a plan that adjusts the timing of payments on the senior bonds or the subordinated bonds or the interest rate or other terms of the senior bonds or the subordinated bonds, provided that (i) the bondholders retain their lien on the special revenues and (ii) the payment stream has a present value equal to the value of the special revenues subject to the lien.

B. Possible effect of an airline bankruptcy

Given that a substantial portion of the revenues to be deposited in accordance with the Senior Trust Agreement is derived from rentals, fees and charges imposed upon the Signatory Airlines pursuant to the Airline Agreement, the bankruptcy of a Signatory Airline, particularly a dominant one, could have an effect on the ability of the Authority to make debt service payments. KBRA understands that in the event a bankruptcy case is filed with respect to an airline operating at TPA, the Airline Agreement, lease or permit governing such airline's use of Airport space would constitute an executory contract or unexpired lease pursuant to the United States Bankruptcy Code. KBRA understands that in Chapter 11 cases, the debtor in possession or its bankruptcy trustee, if one is appointed, has 120 days from the date of filing of the bankruptcy petition to decide whether to keep ("assume") or jettison ("reject") a nonresidential lease, such as the Airline Agreement. KBRA also understands that the 120-day period may be extended by court order for an

additional 90 days for cause and that any additional extensions are prohibited unless the debtor airline or its bankruptcy trustee obtains the Authority's consent and a court order.

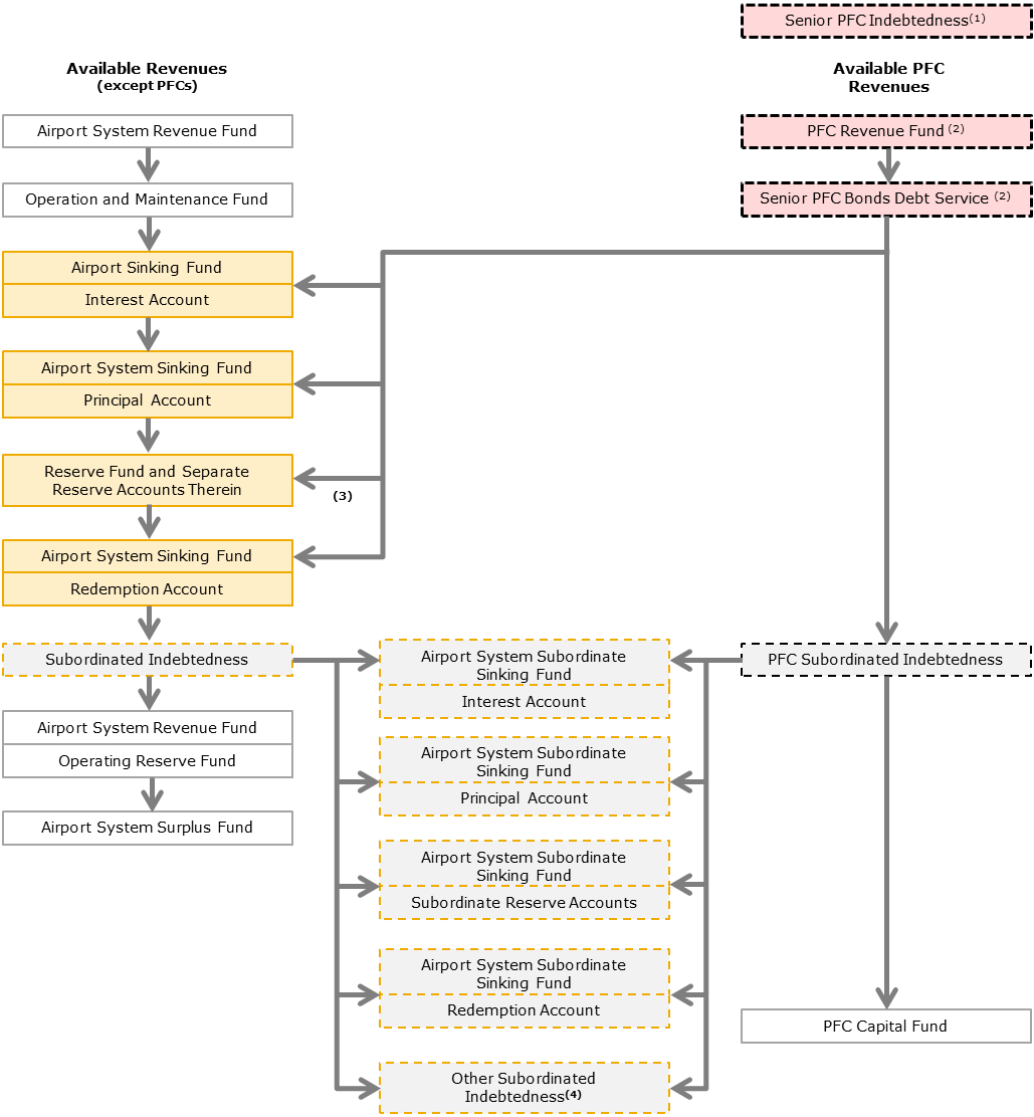
KBRA understands that under the Bankruptcy Code, were a bankruptcy trustee or the airline as debtor in possession to elect to reject an executory contract or unexpired lease of non-residential real property, the rejection is deemed to be a default immediately before the date of the filing of the bankruptcy petition. KBRA also understands that under the Bankruptcy Code, upon rejection of an unexpired lease the airline debtor must surrender the relevant non-residential real property to the lessor. As a result, rejection of an unexpired lease by an airline debtor may result in the Authority unexpectedly regaining control of the applicable facilities (including gates and boarding areas). The Authority could then lease or permit such facilities to other airlines. The Authority's ability to lease such facilities to other airlines may of course depend on the state of the airline industry in general, on the nature and extent of the increased capacity at TPA resulting from the departure of the debtor airline, and on the need for such facilities.

KBRA understands that under the Bankruptcy Code, any rejection of a lease or other agreement could also result in a claim by the Authority for rejection damages against the debtor airline. KBRA understands that such claim would be in addition to all pre-bankruptcy amounts owed by the debtor airline. KBRA understands that with respect to leases, a rejection damages claim for the rent due under a lease is capped under the Bankruptcy Code at the greater of one year, or 15%, not to exceed three years, of the remaining term of the lease. KBRA understands that rejection damages claims are generally treated as a general unsecured claim of the airline debtor, and could be considerably less than the cap. However, KBRA understands that the Authority may have rights against any faithful performance bond or letter of credit required of an airline to secure its obligations under the Airline Agreement and/or the right to set off against credits owed to the airline under relevant agreements.

Alternatively, KBRA understands that under the Bankruptcy Code an airline debtor can "assume" its executory contracts and unexpired leases and that the Bankruptcy Code further provides for an airline debtor to assume and assign its executory contracts and leases to a third party, subject to certain conditions. KBRA understands that if the bankruptcy trustee or the airline assumes its executory contracts or unexpired leases as part of reorganization, the airline debtor must "cure" or provide adequate assurance that the airline debtor will promptly cure its prepetition defaults, including arrearages in amounts owed. Even if all such amounts owed are eventually paid, the Authority could experience delays of many months or more in collecting them.

Appendix

Flow of Funds
Under the Senior and Subordinate Lien Trust Agreement



1) No such debt is currently outstanding.
 2) Available PFC Revenues are required to be deposited into the Interest Account, the Principal Account and the Redemption Account Under the Senior Trust Agreement in an amount equal to the monthly deposit requirements with respect to the PFC Bonds, and then for the replenishment of any reserve account established for PFC Bonds, and then to the payment of debt service on PFC Subordinated Indebtedness.
 3) To the extent required to fund deficiencies in the separate reserve accounts established in the Reserve Fund for a particular series of PFC Bonds.
 4) The SunTrust Note has a third lien status.

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