Hillsborough County Aviation Authority, FL (Tampa International Airport)

Issuer: Hillsborough County Aviation Authority, FL		
Assigned	**Ratings**	**Outlook**
Tampa International Airport Revenue Bonds, 2022 Series A (AMT)	AA	Stable
Tampa International Airport Revenue Bonds, 2022 Series B (Non-AMT)	AA	Stable
Tampa International Airport Revenue Bonds Taxable Subordinated Revenue Refunding Bonds, 2022 Series A (PFC)	AA-	Stable
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: The Series 2022A and Series 2022B Revenue Bonds are secured by a pledge of airport system net revenues. The 2022 Subordinated Revenue Bonds are payable from remaining net revenues as well as from available passenger facility charge (PFC) revenues.

The assigned ratings reflect Tampa International Airport'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 ample liquidity that has improved despite the COVID-19 pandemic.

The Authority 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 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 and prior to the Omicron surge and related airline staffing shortages leading to flight cancellations, TPA traffic was trending near pre-pandemic levels. January 2022 enplanements are estimated at 83% of January 2020 levels. Airport officials project that TPA will handle more than 20.55 million passengers during FY 2022, a 32% increase versus FY2021 but still 7.3% below FY 2019 pre-COVID levels. 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 caused by the significantly decreased passenger activity. These included deferred maintenance, hiring freezes, 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, $2.4 million in CRRSAA funds and $40 million of ARPA funds are expected to be used in FY 2022, with the remaining $39.4 million of ARPA funds likely to be applied in FY 2023. These funds were used to offset operating expenses.

Debt service coverage for the senior bonds has ranged from 2.08x to 2.44 over the past five years, pursuant to the Senior Trust Agreement. Coverage of subordinated bonds has varied from 3.11x to 6.06x, including the application of PFC revenues, over the same period. Combined coverage ranges from 1.70x to 2.14x, all ratios that are well above rate covenant requirements.

TPA's overall capital program totals approximately $2.2 billion through FY 2028. Of that total, approximately $373 million in various capital projects will be financed with proceeds from the senior Series 2022A and Series 2022B Bonds. Proceeds will also be applied to repaying amounts currently outstanding under the Revolving Credit Agreement. Subordinated Series 2022 Bonds will be utilized to refund several outstanding series for present value savings. The Authority presently contemplates issuing an additional $517 million in senior bonds and $210 million in subordinated bonds in 2024 to primarily fund construction of Airside D. Sharply increased debt service requirements are expected be accommodated by TPA operations.

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 due to the pandemic. 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 Airline Agreement, which entailed subsidization of airline cost centers by the Authority. In contrast with the Airline Agreement, 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. Further, there no longer are any airline majority in interest (MII) approval rights over certain capital projects that existed in the prior Airline Agreement.

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 $9.99 for FY 2022, while the Consultant 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 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

- Airport activity has recovered substantially from the early months of the COVID-19 pandemic, but the near-term outlook is clouded by ongoing virus-related challenges.

Rating Sensitivities

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

Key Ratios

Key Airport Ratios FYE September 30	
Airport Activity	
Top Carrier Market Share (FY 2021)	
Southwest	28.7%
Delta	17.4%
American	17.3%
Trust Agreement Coverage in FY 2021	
Senior Debt Service Coverage	2.44x
Senior & Subordinate Debt Service Coverage	1.94x

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 1-2 and 4-6 and of ESG Management can be found in KBRA's report dated September 21, 2021.

Bankruptcy Assessment

KBRA's latest bankruptcy assessment can be found in the report dated September 21, 2021.

RD 3 Update: Airport Utilization

As discussed in KBRA's report dated September 21, 2021, where further details about this rating determinant can be found, TPA enjoyed a strong utilization profile prior to the COVID-19 pandemic, with generally rising enplanements, limited reliance on connecting traffic, and a diverse carrier mix. Recent developments suggest that TPA is in a good position to see new growth in the next several years, though uncertainty remains about future COVID-19 impacts.

New Entrants and Expanded Airline Service

Although the quantity of cities served non-stop from TPA declined in CY 2020, by January 2022, the airport served more non-stop destinations than before the pandemic and had 35 more carrier/market combinations than in January 2020. Most of these new combinations are domestic routes launched by low-cost and ultra-low-cost carriers (LCCs and ULCCs), particularly Frontier, Breeze, Southwest, and Spirit. Breeze Airways, an entirely new carrier, set up 10 routes from TPA, including five that are completely new to the airport. Frontier, in fact, selected TPA as a new crew base. This is consistent with a nationwide trend in the second year of the pandemic of LCCs and ULCCs expanding opportunistically. KBRA acknowledges that historically, ULCCs services have been relatively volatile. Although fewer in number, a few services were added by legacy carriers after January 2020, such as Delta to Seattle and American and United to Los Angeles.

International travel was a relatively small but growing component of TPA's traffic prior to the pandemic. After a pandemic-driven absence, transatlantic services recommenced at the airport in November 2021 with the return of flights to London Gatwick by British Airways. Eurowings Discover (owned by Lufthansa) began service to Frankfurt in December 2021 and TPA expects flights to Switzerland by Edelweiss Air to resume in CY 2022.

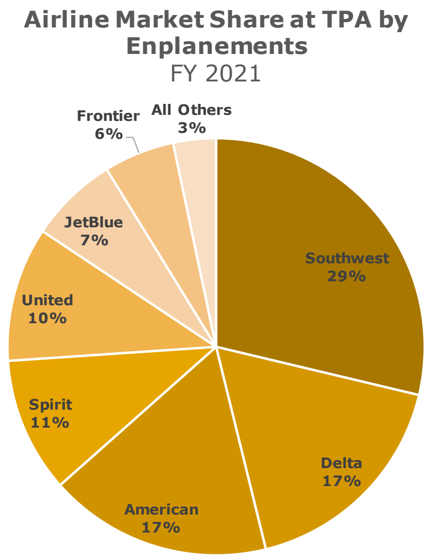
Favorable Carrier Mix

Carrier concentration remains low. In FY 2021, Southwest, Delta, and American continued to have the three largest market shares. Since several new or resumed routes by carriers outside the top three – particularly by Spirit and Frontier – started after FYE 2021, KBRA believes TPA's FY 2022 carrier mix may end up even more diverse the FY 2021 mix.

COVID-19 Impact on Enplanement Activity

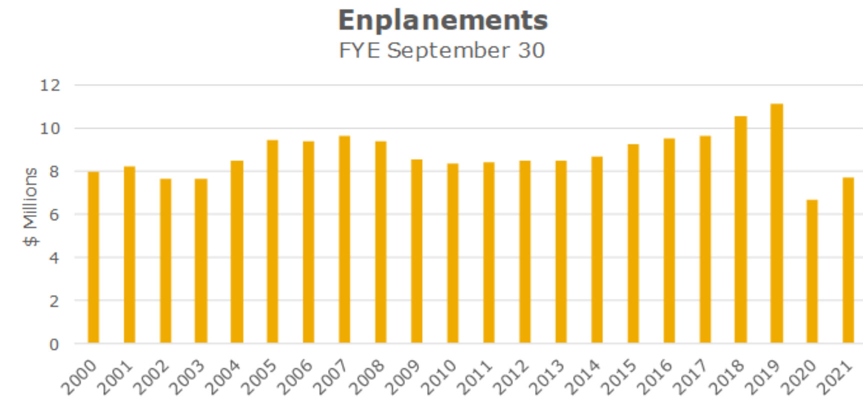
TPA has been a leader among large U.S. airports in the recovery of passenger air travel from the worst impacts of COVID-19. By July 2021, TPA's enplanements were only 4.7% below those of July 2019. Progress then slipped thanks to the delta variant of COVID-19 and staffing shortages, but by November 2021, enplanements recovered to 2.2% below the November 2019 level. The omicron variant of COVID-19 then began to weigh on air travel, with December 2021 enplanements at 10.9% below the December 2019 equivalent and January 2022 levels (estimated from HCAA-provided trends) at 17.4% below the January 2020 equivalent. Uncertainty remains given the unpredictability of whether future variants will be as impactful, but KBRA believes TPA is well-positioned to benefit from future stabilization in air travel, given the underlying demand for business and leisure travel to/from the service area.

Figure 1



Source: HCAA

Figure 2



Source: HCAA

Figure 3

Monthly Airport Enplanement Activity FYE September 30							
Fiscal Year	2019	2020	Δ YOY	2021	Δ from same month FY 2019	2022	Δ from same month FY 2020
October	783	852	8.8%	380	-51.4%	784	-8.0%
November	915	916	0.1%	429	-53.2%	896	-2.2%
December	949	1,049	10.5%	466	-50.9%	934	-10.9%
January	910	962	5.7%	451	-50.4%	795	-17.4%
February	885	958	8.3%	454	-48.7%		
March	1,170	663	-43.3%	714	-39.0%		
April	1,056	47	-95.6%	805	-23.8%		
May	975	114	-88.3%	849	-12.9%		
June	922	248	-73.1%	862	-6.5%		
July	934	302	-67.7%	889	-4.7%		
August	871	286	-67.2%	751	-13.8%		
September	716	284	-60.3%	668	-6.7%		
Total Year	**11,085**	**6,681**		**7,717**			

Source: HCAA. Note: Jan 2022 is estimated based on HCAA-provided Jan 2022 vs Jan 2020 trend