S&P Global Ratings

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Summary:

Hillsborough County Aviation Authority, Florida
Tampa International Airport; Airport

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Long Term Rating	AA-/Stable	Current
Hillsborough Cnty Aviation Auth (Tampa International Airport) arpt		
Long Term Rating	A+/Stable	Current

Credit Highlights

- S&P Global Ratings' long-term rating on the Hillsborough County Aviation Authority, Fla.'s senior-lien revenue bonds outstanding is 'AA-', and its long-term rating on the authority's subordinate-lien revenue bonds is 'A+'.
- Both series were issued for Tampa International Airport (TPA).
- The outlook is stable.

Security

Net revenue of the airport system--which consists of TPA and three general reliever aviation airports, Peter O. Knight Airport, Plant City Airport, and Tampa Executive Airport--secures the bonds. Most net revenue comes from TPA. A junior pledge of the airport system's net revenue secures the subordinate bonds. Available passenger facility charge (PFC) revenue secures the subordinate bonds. Under the senior and junior indentures, the authority can include PFC collections to meet the rate covenant and additional bonds tests for bonds issued to finance PFC-eligible projects, and it has done so for the subordinated bonds.

The airport has approximately $1.77 billion in debt outstanding, consisting of $937.9 million of senior-lien bonds, $469.7 million in subordinate-lien bonds, and $357.5 million of customer facility charge revenue bonds. The customer facility charge revenue bonds are a separate credit. Cash-funded debt service reserves totaling $132.6 million provide additional liquidity to bondholders.

Credit overview

The rating reflects our opinion of TPA's very strong enterprise risk and strong financial risk profile, and is based on the airport's impressive enplanement and financial recovery near pre-pandemic levels, which has continued through fiscal 2022. Enplanements for the nine months through June 2022 (Sept. 30 fiscal year end) are 96% of 2019 pre-pandemic levels, and operating revenue is exceeding budget by 14.8%. We expect TPA to maintain financial metrics consistent with a strong financial risk profile as it issues debt to fund its capital improvement program, including the $375 million in new money debt issued in February 2022 and $727.4 million planned in 2024.

Key credit strengths, in our opinion, include TPA's:

- Favorable service area economic fundamentals in the Tampa metro area, which will support robust air travel demand as a result of good economic activity as measured by GDP per capita, a large population base, above-average expected population growth, and ample employment opportunities;
- Extremely strong management and governance, as is evident in management's ability to adjust revenue, expenses, and capital spending to protect sound financial operations and planning for required capital spending to maintain assets and plan for growth;
- Debt service coverage and debt to net revenue that we expect will remain strong at more than 1.25x and less than 15x, respectively; and
- Strong liquidity position in recent years, with approximately $223.6 million, or 605 unrestricted days' cash on hand, and unrestricted reserves at 20% of debt in fiscal 2021.

Partly offsetting the above strengths, in our view, are TPA's:

- Large but manageable capital improvement plan totaling $2.2 billion through fiscal 2028 with $727.4 million in additional debt plans in 2024; and
- Competition from Orlando International Airport (approximately 100 miles away).

Environmental, social, and governance

We analyzed TPA's risks and opportunities related to environmental, social, and governance credit factors relative to its market position, management and governance, and financial performance. Elevated health and safety concerns, which we consider a social risk factor, are abating, as reflected in TPA's enplanement recovery, but we still believe this sector has moderately negative risk exposure, given the substantial impact on airports at the onset of the COVID-19 pandemic. We also view physical risks as moderately negative in our credit rating analysis given the airport's location along Florida's Gulf Coast, which makes it more susceptible to weather events and the effects of climate change. We consider governance credit factors neutral in our credit rating analysis.

Outlook

The stable outlook reflects our expectation that TPA will maintain financial metrics consistent with a strong financial risk profile given strong passenger recovery trends that we believe are sustainable.

Downside scenario

We could lower the rating if enplanement trends weaken materially or if we come to expect that financial metrics, particularly debt service coverage and debt to net revenue, will be sustained at levels inconsistent with a strong financial risk profile.

Upside scenario

We do not expect to raise the rating in the next two years given our expectation that TPA will maintain financial metrics consistent with a strong financial risk profile.

Credit Opinion

S&P Global Ratings believes that momentum will likely protect the U.S. economy from recession in 2022. But with supply chain disruptions worsening as extremely high prices damage purchasing power and as aggressive Federal Reserve policy increases borrowing costs, economic effects are likely in 2023. Our U.S. GDP growth forecasts are 2.4% for 2022 and 1.6% for 2023 (compared with 2.4% and 2.0%, respectively, in May 2022), and while our baseline signals a low-growth recession we believe the likelihood of a contraction or technical recession is rising, to 40% (35%-45% band). The wider band reflects increased uncertainty over the Russia-Ukraine conflict. Supply chain disruptions, worsened by that conflict and the China slowdown, remain the largest stumbling block for the U.S. economy. As inflation expectations become more entrenched, extreme price pressures will likely last well into 2023. We expect the national unemployment rate, at 3.6% in May and slightly in excess of the pre-pandemic level, will remain near that rate until early 2023 before surpassing 4.3% by the end of 2023 and 5.0% by the end of 2025 as the economy slows. The Federal Reserve is now likely to push rates to 300 basis points by year end from zero at the beginning of the year and reach 3.50% to 3.75% by mid-2023. The Fed will keep monetary policy tight until inflation decelerates and nears its target in second-quarter 2024. We expect the Fed to start to cut rates in third-quarter 2024. Our lower GDP and inflation forecasts for 2023 and 2024 reflect this more aggressive policy stance. (See "Economic Outlook U.S. Q3 2022: The Summer Of Our Discontent," published June 27, 2022, on RatingsDirect.)

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022