FitchRatings

28 OCT 2021

Fitch Affirms Hillsborough County Port District (Port Tampa Bay, FL) at 'A'; Outlook Stable

Fitch Ratings - New York - 28 Oct 2021: Fitch Ratings has affirmed the 'A' rating on Hillsborough County Port District, FL's (Port Tampa Bay, the Port) approximately $84 million in outstanding revenue bonds and notes. The Rating Outlook is Stable.

RATING RATIONALE

The rating reflects the port's diversified operating revenues, which limit exposure to pandemic-related declines in cruise revenue, coupled with a strong fiscal position evidenced by strong liquidity and a relatively low debt profile. Cruise activity resumed in October 2021 for the first time since the no-sail order was issued in March 2020 at the onset of the pandemic. Fitch believes cruise revenues continue to have a heightened risk profile that could potentially prolong recovery to pre-pandemic levels.

The port does not have current plans to issue debt for capital expenditures, which are funded by a favourable balance of ad valorem taxing power, grants, and port revenues. The port's diversified profile and lesser exposure to cruise helps to insulate financial performance from cruise stress, supporting the Stable Outlook.

KEY RATING DRIVERS

Strategic Location - Revenue Risk (Volume): Midrange

The port's proximity to downtown Tampa, with a catchment area in central Florida approaching 10 million people, and its competitive position as the deepest gulf port in Florida support its cargo and cruise businesses; both have shown modest resilience during periods of economic downturn. The port's moderate exposure to the emerging economies of Mexico and Brazil, the volatile nature of revenue related to the commodity-based cargo business, and potential fluctuations in the region's construction sector give the port a somewhat volatile demand profile. Revenue diversity has helped the port withstand the interruptions in cruise activity caused by the coronavirus pandemic starting in March 2020.

Diversified Revenue Base - Revenue Risk (Price): Midrange

No single maritime business line generated more than a quarter of total operating revenues prior to the coronavirus pandemic. The port's status as a landlord port limits its operational risk. Long-term leases accounted for approximately 50% and 59% of operating revenues in fiscal 2019 and 2020, respectively.

Manageable Capital Plan - Infrastructure Development & Renewal: Stronger

The port's anticipated capital investments include several improvement and expansion projects that seek to increase intermodal connectivity and enhance the district's current revenue base. No new debt issuance is planned for 2022 and all capital projects will be funded through cash or grants. However, additional debt may be required in the long term to support the more expansive Master Plan through 2030. The port has adequate debt capacity, especially after 2022 when existing debt obligations fall substantially. The port's credit is further enhanced by the district's ability to levy an ad valorem tax used to fund capital projects, reducing the dependency on port operations for funding.

Moderate Variable-Rate Debt Component - Debt Structure: Midrange

The port's debt is largely fixed rate, with 8% synthetically fixed and hedged via an interest rate swap. The capital structure currently reflects a rapid amortization profile over the next three years, providing considerable flexibility if the port pursues additional borrowing for projects under its Master Plan. The lack of cash-funded debt service reserves is somewhat mitigated by a strong cash position, with over 700 days of unrestricted cash on hand as of Sept. 30, 2021, though cash expenditures for the capital plan could reduce liquidity.

Financial Profile

The port's healthy financial performance is evidenced by the stable senior and total debt service coverage ratio (DSCR) of 2.9x and 2.3x, respectively in fiscal 2021 based on unaudited financials. Senior net debt/cash flow available for debt service (CFADS) and total net debt/CFADS were modest at 1.0x and 2.4x, respectively. These metrics do not take into consideration the tax levy ability allowed but currently not applied by the port district.

PEER GROUP

Peers include Jacksonville Port Authority (rated A) and Broward County Port Facility (Port Everglades; A), which have diverse cargo profiles and similar revenue bases. All benefit from minimum annual guarantees (MAGs) covering over half of operating revenues, and Port Everglades and Port Tampa Bay have similar leverage and coverage metrics. Port Everglades has higher exposure to cruise activity than Tampa. In fiscal 2019 approximately 35% of Port Everglades' operating revenue was from cruises compared with approximately 22% for Port Tampa Bay.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/ downgrade:

--Total coverage weakening to 1.6x or lower on a sustained basis;

--Material increases in leverage above 5x to 6x due to new borrowings or meaningful reductions in liquidity levels; and

--Substantial declines in cargo activity and cruise passengers processed at the port and supporting revenues.

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

--Stabilization of cruise activities which will contribute to revenue growth and result in total coverage levels at or above the 1.8x range on a sustained basis will support a positive rating action;

--Maintenance of sound liquidity and a low overall leverage in conjunction with meeting the capital program needs of the port district.

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.

CREDIT UPDATE

Performance Update

Preliminary fiscal 2021 operating revenues decreased by approximately 3% from 2020 to $54.8 million and operating expenses decreased 8% from 2020 to $31.8 million. The revenue decline is due to the March 2020 no-sail order, which paused all cruise activity. Management enacted cost containment measures in response to the decline in revenues in addition to the decline in certain cruise-related expenses.

Port Tampa Bay's cruise activity was brought to a complete stop starting on March 14, 2020, following the Centres for Disease Control and Prevention's (CDC) No Sail Order. In fiscal 2021, the port had 0 cruise passengers. For the partial period of fiscal 2020 prior to the no-sail order, cruise passengers totalled 507,920, 44% of 2019's total. Prior to the pandemic, cruise passengers grew by 10% to 1.1 million in fiscal 2019. Cruise revenues of $6.1 million accounted for approximately 11% of the port's operating revenue in fiscal 2020 compared to $13.9 million in fiscal 2019. Cruise revenue's share of total operating revenue remained stable at approximately 21% from fiscal 2015 through 2019.

Cargo revenue has been resilient during the pandemic. In fiscal 2020, bulk and general cargo tonnage was approximately flat and revenue increased by approximately 2%. Bulk and general cargo have historically experienced relatively strong, albeit volatile growth. Cargo activity continues to benefit from capital improvements realized over the past decade, particularly container activity, which has more than tripled since 2016.

The port completed $9.8 million in capital improvement projects in 2021 and $24.1 million in improvements are underway The main project completed in 2021 was Hooker's Point - Berth 214 Upland Improvement Phase 2 and Emergency Access Road. The fiscal 2022 capital plan includes $65.6 million in new capital projects, which will be funded by proceeds of the 2018 bonds, port revenues, federal & state grants, ad valorem taxes and investments by tenants. Management does not expect to issue new debt to fund new projects in 2022. Major projects include berth improvements, expansions, and dredging.

In April 2021, the port issued a $12 million series 2021 taxable revenue refunding note to refund the series 2018 note. The refunding reduced near-term debt service payments and extended the maturity to 2026 from 2022, providing financial flexibility given the pandemic-related decline in cruise revenues.

FINANCIAL ANALYSIS

The Fitch base and rating cases incorporate preliminary fiscal 2021 (year-end Sept. 30th) operating results and the fiscal 2022 budget. Revenue declines by 3% in fiscal 2021 and increases by 9% in fiscal 2022. Cruise revenue recovers to 2019 levels in 2025 and grows by 3% in 2026. Non-cruise revenues grow at 3% per year from fiscal 2023 through 2026. Operating expenses decline by 8% in fiscal 2021, increase by 16% in fiscal 2022, and grow by 3% per year thereafter.

In the base case, senior and total DSCR average 3.6x and 2.8x respectively from 2022 through 2026. Total leverage declines from 2.4x in fiscal 2021 to 0.9 in fiscal 2026, accounting for cash contributions to the port's capital program in conjunction with maintenance of $50 million in liquidity.

Fitch's rating case maintains the base case assumptions for fiscal 2021 and 2022. Cruise revenues are the same as in the base case and non-cruise revenues grow at a more conservative rate of 0.5% per year from fiscal 2023 through 2026. Operating expenses grow by 3.5% per year from 2023 through 2026. In the rating case, senior and total DSCR average 3.3x and 2.5x respectively from 2022 through 2026. Total leverage declines from 2.4x in fiscal 2021 to 1.1 in fiscal 2026. As in the base case, cash is drawn for the capital plan while maintaining a cash balance of $50 million.

SECURITY

The district's outstanding revenue bonds and senior bank loans are secured by a parity lien on net revenues derived from port operations. Under the indenture, property tax receipts are excluded from the definition of pledged gross revenues.

Asset Description

Port Tampa Bay is the largest port in the State of Florida by tonnage and land. Port properties encompass 5,000 acres and are located across six main areas in Hillsborough County (Channelside, Hookers Point, Eastport, Port Ybor, Port Sutton and Port Redwing). Port Tampa Bay derives the major portion of its revenues as a "landlord port" from dockage, wharfage and rent, while providing the facilities for tenants to conduct diversified cargo and cruise operations.

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 Port District (FL)			

ENTITY/DEBT	RATING			RECOVERY	PRIOR
• Hillsborough County Port District (FL) /Port Facilities Revenues/ 1 LT	LT	A ⊡	Affirmed		A ⊡

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

Applicable Criteria

[Infrastructure and Project Finance Rating Criteria (pub.23 Aug 2021) (including rating assumption sensitivity)]

[Ports Rating Criteria (pub.15 Oct 2020) (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

Hillsborough County Port District	EU Endorsed, UK Endorsed

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Endorsement policy

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