FITCH AFFIRMS HILLSBOROUGH COUNTY PORT DIST (PORT TAMPA BAY, FL) BANK LOANS AT 'A'; OUTLOOK STABLE

Fitch Ratings-New York-23 August 2019: Fitch Ratings has affirmed the 'A' rating on Hillsborough County Port District, FL's (the district) approximately $99 million in outstanding senior bank loans. The Rating Outlook is Stable.

KEY RATING DRIVERS
The rating reflects continued strong and growing throughput and revenue performance from diverse business operations, supported by contracted revenues, which bolster revenue stability. A favorable balance of ad valorem taxing power, grants, and port revenues supports the port's approximately $400 million five-year capital plan. The current plan is approximately 25% debt funded, which could elevate leverage from current low levels. However, the amount of debt required could change since certain projects will not proceed without associated grants and private partnerships. The port's diverse operations and financial metrics are in line with the 'A' category.

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.

Diversified Revenue Base - Revenue Risk (Price): Midrange
No single maritime business line, inclusive of cargo and cruise, generates more than 26% of total operating revenues. The port's status as a landlord port limits its operational risk, and approximately 55% of operating revenues are derived from long-term lease agreements.

Manageable Capital Plan - Infrastructure Development & Renewal: Stronger
The port's current five-year capital program through 2023 totals approximately $400 million, and includes several improvement and expansion projects that seek to increase intermodal connectivity and enhance the district's current revenue base. The five-year capital improvement plan (CIP) is largely funded with port revenues, grants, taxes, and new debt. Approximately $60 million of new debt is anticipated to fund the capital plan. The port has adequate debt capacity, especially after 2022 when existing debt obligations fall substantially. Fitch notes that a portion of Port Tampa Bay's more expansive Master Plan through 2030 may require additional borrowing by the port. 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.

Sound Debt Structure - Debt Structure: Midrange
The port's senior lien debt is largely fixed rate, with 12% variable rate debt that is all synthetically fixed via an interest rate swap. The capital structure currently reflects a rapid amortization profile over the next four years; providing considerable flexibility should the port pursue 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 590 days of unrestricted cash on hand as of fiscal year end 2018, 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 1.9x and 1.8x, respectively in fiscal 2018. Senior net-debt to cash flow

available for debt service (CFADS) and total net-debt to CFADS were modest at 2.0x and 2.9x respectively but could rise as the capital program moves forward to 2.5x and 4.2x respectively in Fitch's rating case.

PEER GROUP
Peers include Jacksonville (A/Stable) and Port Everglades (A/Stable), with diverse cargo profiles and similar revenue bases. All benefit from minimum annual guarantees (MAGs) covering roughly 2/3 of operating revenues, and Port Everglades and Port Tampa Bay have similar leverage and coverage metrics.

RATING SENSITIVITIES
Developments That May, Individually or Collectively, Lead to Positive Rating Action:
- Continued growth in operating revenues resulting in total coverage levels at or above the 1.7x range on a sustained basis, while maintaining sound liquidity and low overall leverage.

Developments That May, Individually or Collectively, Lead to Negative Rating Action:
- Total coverage weakening to 1.4x 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.

CREDIT UPDATE

Performance Update

Recent operating performance has been notably positive as noted by fiscal 2018 operating revenues increasing by 11.1% to $59.7 million. Operating revenue growth was primarily driven by increased cargo activity and additional cruise revenue. Among major revenue categories, bulk cargo increased 10.9%, general cargo increased 11.3%, and cruise revenue increased 9.7%. Lease revenue was also up in fiscal 2018 due to the addition of new leases and scheduled rent increases on existing leases.

Long-term lease revenues and MAGs support revenues. The port has derived approximately 56% of its revenues the last three years on average from lease revenues and tonnage-based throughput guarantees. For fiscal 2019-2022, the port will receive a total of $77.5 million in tonnage-based MAGs and $63.5 million in lease revenue. Beyond 2022, an additional $411 million in future lease revenue is guaranteed by lease contracts. MAGs through fiscal 2022 are sufficient to cover debt service obligations on average at 2.3x (gross coverage), providing stability to the rating.

The fiscal 2019-2023 CIP totals approximately $400 million and is consistent with the previous program concerning total outlays. The port recently completed the deepening and widening of the big bend channel, which allows larger ships to call at terminals located on Port Redwing, and will facilitate the movement of cargo through the I-4 corridor. Management has also indicated new private sector business developments currently in negotiation, including the recent addition of Celebrity Cruises to the port in October 2020, that represent potential upside to the financial profile going forward.

Fitch Cases

Fitch's base case assumes growth in operations revenue in line with management's projections of 5.8% in fiscal 2019 and -1.5% in fiscal 2020 followed by 3.0% per annum thereafter. Fitch also assumed 1.5% growth in operating expenses in 2019 followed by 3.0% annual growth. The base and rating cases both consider the port's expected future debt issues totaling $60 million through 2023 to fund the capital plan, reflected in higher debt service and debt outstanding. In the base case, senior DSCR averages 2.4x and remains above 1.9x, while total coverage averages 2.1x with a minimum of 1.7x. Total leverage increases to 3.2x in fiscal 2023, 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 2019, but assumes a more conservative CAGR of 0.5% for total revenue coupled with higher operating expenses of 3.5% throughout the forecast period. In this case, senior DSCR averages 2.1x with a minimum of 1.8x. Total coverage averages 1.8x, but coverage narrows to 1.6x in 2021 and 2022. Under this scenario, total leverage increases to 4.2x in 2023 as new debt is issued for the capital plan. As in the base case, cash is drawn for the capital plan while maintaining a cash balance of $50 million. This assumption reflects the ports flexibility to defer certain capital programs in the event of lower revenues due to a less favourable economic environment.

Asset Description

Port Tampa Bay is the largest port in the State of Florida by tonnage and land. Port properties encompass 5000 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.

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.

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Applicable Criteria
Ports Rating Criteria (pub. 23 Feb 2018)
https://www.fitchratings.com/site/re/10021628
Rating Criteria for Infrastructure and Project Finance (pub. 27 Jul 2018)
https://www.fitchratings.com/site/re/10038532