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

Fitch Ratings-New York-12 June 2018: Fitch Ratings has affirmed the 'A' rating on Hillsborough County Port District, FL's (the district) approximately $70.7 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 $395 million five-year capital plan. The current plan is approximately 25% debt funded. 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 healthy financial metrics compare favorably with Florida port peers and are relatively strong for the 'A' rating level.

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 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 $395 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 CIP is largely funded with port revenues, grants, taxes, and new debt. Approximately $100 million of new debt is anticipated to fund the capital plan. The port has adequate debt capacity, especially after 2020 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.

Moderate Variable-Rate Debt Component - Debt Structure: Midrange
The port's debt is largely fixed rate, with 28% synthetically fixed and hedged via two interest rate swaps. The capital structure currently reflects a rapid amortization profile over the next six 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 633 days of unrestricted cash on hand as of fiscal year end 2017, though balances will likely diminish as the authority executes its capital program.

Financial Profile
The port's healthy financial performance is evidenced by the stable debt service coverage ratio (DSCR) of 1.5x in fiscal 2017. Senior net-debt-to-cash-flow (CFADS) and total net-debt to

CFADS were modest at 0.9x and 1.8x respectively. Senior and total leverage are expected to rise to 3.1x and 4.0x 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. Port Tampa Bay's five-year CIP size is comparable to Port Everglades, though its longer-term master plan includes additional projects and is likely to increase port leverage.

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

Future Developments That May, Individually or Collectively, Lead to Negative Rating Action:
--Inability to maintain DSCR of at least 1.4x or higher on a sustained basis;
--Material increases in leverage above 5x to 6x or meaningful reductions in currently strong liquidity levels; and
--Substantial declines in cargo activity and cruise passengers processed at the port and supporting revenues.

CREDIT UPDATE

Performance Update

Fiscal 2017 operating revenues increased 9.3% to $53.8 million, maintaining strong financial margins produced over the last decade. Operating revenue growth was primarily driven by increased cargo activity and additional cruise revenue. Among major revenue categories, bulk cargo increased 9.4%, general cargo increased 22.3%, and cruise revenue increased 24.9%. Lease revenue was also up 11.1% in fiscal 2017 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 57% of its revenues the last three years on average from lease revenues and tonnage-based throughput guarantees. For fiscal 2018-2022, the port will receive a total of $96.7 million in tonnage-based MAGs and $69.7 million in future lease revenue through 2022. Beyond 2022, an additional $383 million in Future Lease Revenue is guaranteed by lease contracts. MAGs through fiscal 2022 are sufficient to cover debt service obligations on average at 2.2x (gross coverage), providing stability to the rating.

The fiscal 2019-2023 CIP totals $395 million and is generally consistent with the previous program concerning total outlays. The completed refrigerated warehouse project opened in late 2017 for the port's newest tenant, Port Logistics Refrigerated Services (PLRS), and received its first shipment of perishables from Ecuador, Mexico, and Costa Rica. PLRS is expected by management to expand the container business and have a positive impact on revenue projections going forward. Management has also indicated new private sector business developments currently in negotiation that represent potential upside to the financial profile going forward.

Fiscal 2017 total DSCR increased to 1.5x from 1.4x in 2016 as a result of higher revenue growth. Management's budget anticipates total coverage to rise to 1.7x in fiscal 2018 due to new business developments and lease agreements. This profile anticipates revenue growth of 5.6% in 2018 and 3% thereafter based on realization of positive operating trends, coupled with modest 2.5% average expense growth.

Fitch Cases

Fitch's base case assumes revenue growth rates in line with management's projections of 5.6% growth in fiscal 2018 followed by 3.0% per annum thereafter. Fitch also assumes flat expenses in fiscal 2018 followed by 2.5% growth from 2019 onwards. The base and rating cases both consider the port's future debt issues totalling $100 million through 2023 to fund the capital plan, reflected in higher debt service and debt outstanding. In the base case, senior DSCR averages 2.0x and remains above 1.6x, while total coverage averages 1.8x and remains above 1.5x through the forecast period. Total leverage averages 2.7x throughout the forecast period, 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 2018, but assumes more tepid annual revenue growth of 0.4% coupled with higher operating expenses of 3.0% throughout the forecast period. In this case, senior DSCR averages 1.7x with a minimum of 1.5x, and total coverage averages 1.6x with a minimum of 1.4x. Under this scenario, total leverage averages 3.1x and increases to 4.0x in 2022. Fitch notes the port's flexibility throughout the forecast period despite drawing down on cash balances to reflect cash contributions to the capital improvement program.

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. 24 Aug 2017)
https://www.fitchratings.com/site/re/902689

Related Research
Fitch Analytical Comparative Tool (FACT - U.S. Ports)
https://www.fitchratings.com/site/re/900102