

# **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.

## Contact:

Primary Analyst  
Anne Tricerri  
Associate Director  
+1-646-582-4676  
Fitch Ratings, Inc.  
33 Whitehall Street  
New York, NY 10004

Secondary Analyst  
Stacey Mawson  
Director  
+1-212-908-0678

Committee Chairperson  
Chad Lewis  
Senior Director  
+1-212-908-0886

Media Relations: Sandro Scenga, New York, Tel: +1 212-908-0278, Email: [sandro.scenga@fitchratings.com](mailto:sandro.scenga@fitchratings.com).

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

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>

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT [WWW.FITCHRATINGS.COM](http://WWW.FITCHRATINGS.COM). PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2018 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.