RATING ACTION COMMENTARY

Fitch Upgrades Hillsborough County Port District's Rev Bonds to 'A+'; Outlook Stable

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Fitch Ratings - New York - 17 Nov 2023: Fitch Ratings has upgraded the rating on Hillsborough County Port District, FL's (Port Tampa Bay, the port) approximately $75 million in outstanding revenue bonds and notes to 'A+' from 'A'. The Rating Outlook is Stable.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Hillsborough County Port District (FL)				
Hillsborough County Port District (FL) /Port Facility Revenues - First Lien/1 LT	LT	A+ Rating Outlook Stable	Upgrade	A Rating Outlook Positive

VIEW ADDITIONAL RATING DETAILS

RATING RATIONALE

The upgrade reflects the Port of Tampa Bay's continued capital investments that have supported strong throughput and revenue performance and are expected to drive additional throughput growth in the near term. Rating case metrics are supportive of the 'A+' rating, with total coverage remaining above 2.0x and leverage remaining below 3x under a scenario which incorporates modest downside stresses coupled with manageable additional leverage over the near to medium term.

The rating reflects the port's diversified operating revenues supported by contractual agreements that bolster revenue stability, coupled with a strong fiscal position evidenced by stable liquidity and low leverage. The port's diversified operations and modest exposure to cruise help to insulate financial performance from fluctuations from any one business line. The rating also reflects near-term capex primarily funded by grants and port revenues, reducing reliance on debt while recognizing the adequate headroom for future borrowing provided by the port's financial profile.

KEY RATING DRIVERS

Revenue Risk - Volume - High Midrange

Strategic Location: The port's proximity to downtown Tampa with a significant catchment area in central Florida and its competitive position as the deepest gulf port in Florida support a varied mix of cargo and cruise businesses; both have shown modest resilience during periods of economic downturn. The port's revenue diversity helps to soften volatility attributable to

Diversified Revenue Base: Long-term leases account for approximately 40-50% of operating revenues, insulating cash flows and financial metrics from the port's exposure to potential volume fluctuations. The port's revenues are expected to substantially track inflation and there is minimal evidence of political interference.

Infrastructure Dev. & Renewal - Stronger

Manageable Capital Plan: The port's anticipated capital investments include several improvement and expansion projects that seek to increase intermodal connectivity and enhance the current revenue base. Short-term capital projects are fully funded through cash or grants, and management does not expect substantial levels of additional debt to support longer term capital needs. The port maintains significant debt capacity as existing obligations fall substantially over the next few years. 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.

Debt Structure - 1 - Stronger

Limited Variable-Rate Debt: The port's debt is fully fixed rate or synthetically swapped to fixed rate. The debt structure currently reflects a rapid amortization profile over the next few 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 offset by the port's maintenance of a strong cash position which is consistently equal to over 500 days cash on hand. The lack of a dedicated reserve offers bondholders less protection should cash expenditures for the capital plan erode liquidity over time.

Financial Profile

The port's healthy financial performance is evidenced by senior and total debt service coverage ratios (DSCRs) of 4.8x and 3.8x, respectively, in fiscal 2023 based on unaudited financials. The port maintains unrestricted cash and reserves in excess of senior debt outstanding, such that senior net debt to cash flow available for debt service (CFADS) is presently negative as of FYE 2023. On a total basis, total net debt to CFADS is low at 0.4x. All-in DSCRs average 3.3x under the Fitch rating case, and leverage remains low when including a potential future borrowing in 2025, reaching 1.2x in 2028.

PEER GROUP

Peers include Jacksonville Port Authority (A/Stable) and Canaveral Port Authority (A-/Positive), both located in the Florida market. Jacksonville and Tampa both benefit from diverse cargo profiles and a similar revenue base, while Canaveral's lower rating reflects its concentration in the cruise business and lower diversification of revenues. Minimum annual guarantees cover around half of operating revenues at all three ports. From a metrics standpoint, Port Tampa Bay has a lower leverage profile than both Jacksonville and Canaveral.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--New borrowings or meaningful reductions in liquidity resulting in leverage above 4.0x.

--Substantial declines in port operations leading to total rating case DSCR below 1.8x on a sustained basis.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Given the market size and the competitive port environment, further upward rating migration is unlikely at this time.

CREDIT UPDATE

Port Tampa Bay's operating revenues showed strong recovery in fiscal 2023 (unaudited), growing by approximately 18% from

The revenue recovery is supported by a continuation of strong cargo and rental performance, coupled with a recovery in cruise activity to near pre-pandemic levels. In fiscal 2023 (unaudited), total bulk and general cargo tonnage increased nearly 8% over the prior year and TEUs increased 22%.

Discussions are currently ongoing with cargo carriers regarding new and expanded services, and also with prospective new tenants regarding future investments in warehousing, transloading, and distribution projects. In 2023, the port entered into a new 10-year lease agreement with Glovis, providing additional vehicle storage area and warehouse space for a vehicle-processing center on Hooker's Point, supporting the port's continued diversification of its business lines. The addition of new container services, cruise services, as well as other cargo marketing efforts are expected to provide incremental growth in the near-to-medium term beyond that included in Fitch's base and rating cases.

The port anticipates completion of $76.7 million in capital improvement projects in 2024. Capital projects will be funded by proceeds of the 2018 bonds, port revenues, federal & state grants, ad valorem taxes and investments by tenants.

Currently, there is a terminal expansion underway to increase both cargo handling capacity and terminal operating efficiency. The expansion includes increased storage to 97 acres from 67, berth expansion to 4,500 feet from 3,200, an additional new six-lane gate system (operational fall 2023), three new gantry cranes (operational fall 2023), and an on-dock trans-load warehouse facility. The increased paved storage is anticipated to be completed by 2024 and remaining projects by 2026.

FINANCIAL ANALYSIS

Fitch's base case reflects preliminary fiscal 2023 operating results and the fiscal 2024 budget, followed by conservative expectations of future performance thereafter. The base case assumes revenue growth increasing at a five-year CAGR (2023-2028) of 2.4%. Operating expenses are projected to increase significantly in fiscal 2024, followed by a sustained 4% increase thereafter. The base and rating case both conservatively assume a potential borrowing of $50 million in fiscal 2025, but conservatively do not include incremental growth from ongoing capital investments. Under the base case, senior and total DSCRs average 5.5x and 4.0x, respectively, through 2028. Total leverage peaks at 1.9x in 2026 following the assumed borrowing, but falls to 0.9x by fiscal 2028.

Fitch's rating case considers a hypothetical recessionary stress in fiscal 2025 that results in 5% decrease in revenues followed by a modest two-year recovery period. Operating expenses are stressed 0.5% above base case assumptions starting in fiscal 2026 and grow at a 6.5% CAGR through fiscal 2028. Under this scenario, senior and total DSCR average 4.5x and 3.3x, respectively, from 2024 through 2028. Similar to the base case, total leverage peaks at 2.4x in fiscal 2026 before declining to 1.2x by 2028.

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.

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

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit

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APPLICABLE CRITERIA

Transportation Infrastructure Rating Criteria (pub. 16 May 2022) (including rating assumption sensitivity)

Infrastructure & Project Finance Rating Criteria (pub. 17 May 2023) (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

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Hillsborough County Port District EU Endorsed, UK Endorsed

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