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

Fitch Ratings-New York-26 May 2017: Fitch Ratings has assigned an 'A' rating to the Hillsborough County Port District's (the district) $14.6 million in series 2017 bank loans and $15.4 million in series 2016 bank loans. Fitch has also affirmed the ratings on approximately $70.7 million in outstanding senior bank loans. The Rating Outlook has been revised to Stable from Positive.

The Outlook revision to Stable reflects continued favorable credit metrics, coupled with some uncertainty regarding the timing and magnitude of additional debt requirements under the port district's Master Plan. Fitch notes that the port's front-loaded amortization profile provides adequate capacity for future leveraging beyond 2020.

The port also has approximately $24 million in unrated subordinate state infrastructure bank (SIB) loans outstanding.

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 $394 million five-year capital plan. While the current plan does not include sizable additional borrowing, port projects related to the 2030 Master Plan are likely to result in additional issuance in the medium term. 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 access to over eight million people within 100 miles of the city, 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 25% of total operating revenues. The port's status as a landlord port limits its operational risk, and nearly 60% 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 2022 totals $394 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 and taxes, with only 2.5% coming from debt in the form of a $10 million potential SIB loan. Fitch notes that a portion of Port Tampa Bay's Master Plan through 2030 may require some borrowing by the port, though the port is pursuing partnerships for these projects. Any borrowing would likely take place after 2020, 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 33% synthetically fixed and hedged via two interest rate swaps following the 2017 bank loan. The capital structure currently reflects a rapid amortization profile over the next seven 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 761 days of unrestricted cash on hand, though balances will likely diminish as the authority executes its capital program.

Stable Financial Profile: The port's healthy financial performance is evidenced by stable debt service coverage ratios (DSCR) remaining at or above 1.5x since 2005 (1.5x in FY 2016). Net debt-to-cash flow available for debt service (CFADS) was modest at 1.51x in fiscal 2016, and is expected to rise to 3x in Fitch's rating case.

PEER GROUP

Peers include Jacksonville ('A'/Stable Outlook) and Port Everglades ('A'/Stable Outlook), 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. 5-year CIP size is comparable to Port Everglades, though Port Tampa Bay's 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 at or above the 1.6x to 1.7x range, 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.

TRANSACTION SUMMARY

The port is issuing approximately $14.6 million in series 2017 senior lien bank loans. The loan is being issued to refinance the series 2012 bank loan, which has a mandatory tender in 2017. The loan is on parity with existing senior rated debt, and matures in 2027. The series 2017 loan is synthetically fixed at 5.46% respectively via a swap with PNC ('A+'/Stable Outlook) and directly placed floating rate note. The loan has no debt service reserve requirement, though Fitch notes the port's strong cash position as a partial mitigant for the lack of a dedicated reserve.

Performance Update

Fiscal 2016 operating revenues decreased to $49.2 million (down 4% over 2015), but the port has continued to maintain strong financial margins produced over the last decade into 2017. Among major revenue categories, bulk cargo saw a strong increase of 4.1%, while general cargo and cruise revenues saw significant decreases of 8.6% and 3.9%, respectively. The total operating revenue decrease was primarily due to the temporary repositioning of a cruise ship.

For fiscal 2017 year-to-date through March, operating revenues are up 6% from last year, primarily due to 10 more cruises than at the same time last year combined with increased passenger rates.

In particular, Royal Caribbean and Carnival vessels are making port-of-call in Cuba from their Tampa itineraries, making Tampa port the only port in the United States with two cruise ships making ports-of-call in Cuba. Additionally, Carnival Pride and Holland America are adding five sailings to their schedules, with Royal Caribbean having added a second ship in 2017 as well. Also contributing to year-to-date revenue performance, increased movements of scrap, steel, sulphur and cement have led to increased bulk and general cargo revenues ahead of last year. Overall, operating revenues are ahead of budget by 2% due to the increased port usage fees and lease revenues.

Long-term lease revenues and MAGs support revenues. The port has derived approximately 60% of its revenues the last three years on average from lease revenues and tonnage-based throughput guarantees. For 2017 - 2021, the port will receive a total of $90.6 million in tonnage-based MAGs and $57.3 million in future lease revenue through 2021. Beyond 2021, an additional $321 million in Future Lease Revenue is guaranteed by lease contracts. MAGs going forward through 2021 are sufficient to cover debt service obligations on average at approximately 2.0x (gross coverage), providing stability to the rating.

The FY 2018 - 2022 CIP, though larger at $394 million, is generally consistent with the previous program concerning total outlays. The recent completion of the refrigerated warehouse project, which is scheduled to open in summer 2017, 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. These additional revenues are not included in the forecasts, and thus represent additional potential upside to the financial profile going forward.

Fiscal 2016 debt service coverage decreased to 1.50x from 1.87x in 2014 as a result of lower revenues and higher expenses from increased personnel costs. Management's budget anticipates coverage to rise to 2.10x in fiscal 2017 due to new cruise sailings and business developments. This profile anticipates revenue growth of 12% in 2017 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 that the port is able to achieve its budget target for expense growth of 0.9% in 2017. Partial credit is given to the budgeted 12% revenue rise in 2017 with a more moderate growth assumption of 6%, in line with year-to-date performance. Fitch maintains revenue growth rates of 3% in line with management's projections for 2018 - 2021, coupled with expense growth of 4%, consistent with historic growth rates and reflecting potentially higher expenses with new business coming online. In this scenario, senior DSCR averages 2.14x and remains above 1.69x while total DSCR averages 1.91x and remains above 1.64x. Through the forecast period, debt service requirements slightly rise through MADS in 2018. All-in leverage evolves to 2.64x in 2018, but falls to 2x in 2020, which also reflects port revenue contributions to the port's capital program.

Fitch's rating case maintains the same assumptions for 2017 as in the base case, but assumes more tepid revenue growth of 0.4% through the forecast period. In this case, senior debt service coverage averages 1.88x with a minimum of 1.45x, while all-in coverage averages 1.69x with a minimum of 1.40x. Under this scenario, all in leverage evolves to over 3x by 2021, and limited additional borrowing is viewed as likely in order to achieve targeted port funding contributions to the CIP. Fitch notes the port's flexibility throughout the forecast period despite drawing down significantly on cash balances to complete the full scope of the capital improvement program.

Asset Description

The district's outstanding 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
Rating Criteria for Infrastructure and Project Finance (pub. 08 Jul 2016)
https://www.fitchratings.com/site/re/882594
Rating Criteria for Ports (pub. 17 Oct 2016)
https://www.fitchratings.com/site/re/889015